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REVIEW OF OIG OPERATIONS

ORIGINAL

HEARING

BEFORE THE

SUBCOMMITTEE ON DEPARTMENT OPERATIONS, RESEARCH, AND FOREIGN AGRICULTURE

OF THE

COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

SECOND SESSION

JULY 28, 1982

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[1] Resigned from committee Oct. 7, 1981.
[2] Elected to committee Dec. 16, 1981.

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REVIEW OF OIG OPERATIONS

WEDNESDAY, JULY 28, 1982

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DEPARTMENT OPERATIONS,
RESEARCH, AND FOREIGN AGRICULTURE,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 1302, Longworth House Office Building, Hon. George E. Brown, Jr. (chairman of the subcommittee) presiding.

Staff present: Christine Abram, clerk; Cristobal P. Aldrete, special counsel, Charles Benbrook and Gerald R. Jorgensen.

OPENING REMARKS OF HON. GEORGE E. BROWN, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. BROWN. The subcommittee will come to order.

Gentlemen, we have the usual problem of a meeting of the full committee to complete the necessary action on reconciliation legislation which will make it difficult for us to get many members here. However, we will proceed anyway.

I have a brief opening statement which I am going to read. Then I am going to invite Mr. Graziano to make any comments that he wishes to make, and we will have a little discussion. We will submit to you then for a more leisurely analysis questions on which we would like more detailed information, and you can deal with those at your pleasure. Then hopefully in a couple of months we may want to get back with you and go over the results of that.

We do not intend to pick up the full morning on this, nor are we seeking to create a confrontation or anything else of that sort. Basically, we—and I have addressed this in other settings—are attempting to get a better handle on what you are doing, what your problems are, what we can do to help you, and what you can do to help us. If you are doing anything wrong, we hope it will creep out somewhere along the course of the investigation or oversight and we can do something about that.

I will read this statement. I am sure you are all very much interested in everything I have to say.

The hearing today is part of an ongoing effort by this subcommittee to carry out its oversight responsibilities for the Congress. Our subject is the Office of Inspector General in the U.S. Department of Agriculture, an institution that was created by law in 1978 as a way to institutionalize the type of oversight and performance evaluation which the Congress and the public deserve.

Politicians, the press, and the public regularly attack governmental inefficiency as well as waste, fraud, and abuse. In many ways those activities which are blatantly illegal are the easiest to root out, although we seem to have considerable difficulty performing this essential task.

It is for me difficult to carry out another part of the Inspector General Act which charges OIG's to "provide leadership and coordination and recommend policies for activities designed to promote economy, efficiency, and effectiveness" in the administration of our Nation's laws.

The public believes we do neither, and judging by a seemingly endless number of press accounts, I can understand why they feel that way.

Our job today is to examine how the current USDA Inspector General's Office is working and to explore areas where this Office can better carry out the mandate of the law. I do not expect to cover in detail all aspects of this Office, which has more resources and staff than many agencies, but rather begin the process of examining its performance, priorities, and limitations.

I would like to make one announcement in this regard. The committee staff has done an excellent job of preliminary background investigation in preparation for these hearings and prepared a useful summary of findings along with a detailed set of questions. I intend to submit this report along with the prepared questions to the USDA Inspector General, Mr. Graziano, for his review and response.

I feel this hearing will be far more fruitful if we discuss general areas of concern, using specific cases only as examples, and give USDA ample opportunity to evaluate the staff report and respond to the attached questions. We will see that you get an adequate number of copies of that material, Mr. Graziano, for you and your staff's perusal.

Without objection, a copy of such questions will be inserted in the record at this point.

[Staff memorandum entitled "Oversight of the Office of Inspector General in the U.S. Department of Agriculture" appears in the appendix.]

[Subcommittee's questions to Mr. Graziano follow:]

QUESTIONS SUBMITTED TO JOHN V. GRAZIANO

Questions on Audit Activities:

1. Please describe the temporal dimension of audit activity. How many months generally elapse between audit work and accomplishments, and how does this time period vary by Agency?

2. Where does the IG consider these to be the "greatest bang for the buck" in audit activity?

3. Please characterize the different categories of audit accomplishments as "hard" or "soft."

4. What sorts of audits are included in the "multi-agency" category?

5. In the last three six-month reporting periods, there has been a pronounced shift in the ratio of "hard" to "soft" accomplishments toward greater "soft" savings. How do you account for this shift?

6. Why has the percent of audit hours devoted to FmHA work declined markedly from a peak of 43.4% in April 1981 through October 1981 when the accomplishments from audit activity kept rising almost proportional to the level of activity? Was this shift done at the direction of the Secreatry as part of his pledge to remain lenient toward financially strapped farmers and rural businesses?

7. Have the audit work-years remained relatively stable over the last three fiscal years? How are work-years translated to staff hours and staff days? Why have 43.7% of the October 1981 - March 1982 staff hours been accounted for in 3 months of the next period?

General Questions

1. Please provide an OIG organizational chart showing full time staff levels by each division and branch, both for headquarters and field offices. Also, please indicate each division level and above position which remains vacant or is filled in an acting capacity; and provide a list of each division level and above position which has been filled by a new individual since January 1, 1981.

2. Have there been any changes made in either the procedures or criteria used in making personel placements in the OIG? If so, please describe the nature and purpose of the changes.

3. Please describe in detail what criteria and definitions are used in determining when an audit is resolved. Has there been any change in these criteria and definitions in the last two years?

4. What decisions, if any, have been reached regarding moving certain regional offices? I understand a report exists addressing the cost-effectiveness of some moves under review. Could the Subcommittee obtain a copy of the report?

Questions on Investigative Activity:

1. Please provide for the record definitions of the terms: recoveries, savings, collections, fines, claims, indictments, sentences, suits, and judgments. Also, please explain common paths of progress for actions (i.e., case initiated, indictment charged, collection and fines established, etc.).

2. Please describe the temporal dimension of investigative effort and accomplishments. For cases issued in the period October 1980 through March 1981, when would each category of results be expected to be complete. Estimates by Agency would be useful.

3. Please provide a description of the case or cases associated with the $10 million claim against the SEA in the April 1981 - September 1981 period.

4. Which categories of investigative accomplishments are considered "hard" dollar savings or fines; and which categories are "soft." Please explain the nature of these differences.

5. What are agents paid per hour overtime?

6. Many agents apparently earn substantial increases above their base pay. Please summarize the views of the IG on the extent of overtime, and whether the IG is considering hiring additional personnel to work at base pay, thereby lowering the high cost of overtime.

7. Who is responsible for monitoring overtime pay? What analysis does the investigative branch regularly do to determine:

   (1) Percent of overtime pay at base pay by agent;

   (2) Frequency each employee claims overtime pay;

   (3) Types of investigations, areas of country, or other characteristics associated with considerable overtime charges.

   (4) A table is attached on overtime pay in two agencies. Is comparable information available for other agencies? What other sorts of information as overtime is developed, appraised, and available?

8. Investigative activity in the various inspection services administered by the USDA often accomplish important non-monetory results such as protecting consumers from unhealthy or adulterated foods, the introduction of diseases, and protecting foreign confidence in agricultural exports from the U.S. The volume "Case Summaries and Indictments" summarizing OIG work as of January, 1981, contains numerous startling examples where investigations have halted clearly dangerous and extensive schemes involving bribery and extortion. The relatively meager quantitative results of these investigations appear to have led to de-emphasis on such efforts in favor of food program related efforts where quantifiable results are easier to attain.

   How does the OIG take into account non-monetary results of investigative work, and why do AMS, REA and other agencies outside FNS receive so little attention?

Audits ($1) units)

)-80/03-81 1-81/09-81)-81/03-82 1-82/06-82		% Total Work Hours	% Collections Recommended (Hard)	% Collections Conditional (Soft)	% Direct Loans Collec. Recommended (Hard)	% Direct Loan Conditional (Soft)	% Guar. Loans Cancel Recommended (Hard)	% Guar. Loans Cancel Conditional (Soft)
4S	%USDA BUDGET	-	-	-	-	-	-	-
	.002	.4	-	-	-	-	-	-
		.9	-	-	-	-	-	-
		1.1						
CS	about	10.2	3.9	8.8	1.8	6.3	-	-
	10%	7.1	19.2	94.1	-	-	-	-
		9.2	53.8	-	.6	34.9	58	-
		10.7						
HA		28.4	4.2	45.2	98.2	93.7	100	100
	16%	43.4	-	-	100	100	-	100
		32.3	3.1	8.7	99.4	65.1	42	100
		24.2						
S		35.6	18.8	39.2				
	57%	23.2	66.8	3.7				
		39.2	21.5	15.5				
		38.8						
SM		.3	13.7	-				
	negligble	.3	+	+				
		.3	-	.6				
lti-								
gency		7.9	57.7	-				
		9.0	-	-				
		7.0	21.1	74.7				
		12.5						
TALS		262,915	19,218 (10-9/3-81)	2,130	8,037	5,930	328	2,542
		265,537	3,429	665	11,640	6,461	-	24,849
		274,427	27,878	13,792	27,438	56,225	249	6,243
		116,110						

Not broken out, contained in multi-agency

Table developed be DORFA subcommittee based on OIG data.

Summary of Audit Statistics

($1,000 units)

Overall	10-80/3-81	4-81/9-81	10-81/3-82
Hard Savings	27,583	15,069	55,565
Soft Savings	10,602	31,975	76,260
Hard/Soft	2.6/1	.47/1	.73/1
Collections			
Hard	19,218	3,429	27,878
Soft	2,130	665	13,792
Hard/Soft	9.02/1	5.16/1	2.0/1
Direct Loans			
Hard	8,037	11,640	27,438
Soft	5,930	6,461	56,225
Hard/Soft	1.35/1	1.8/1	.48/1
Guaranteed Loans			
Hard	328	-	249
Soft	2,542	24,849	6,243
Hard/Soft	.13/1	-	.04/1

Analysis by DORFA subcommittee based on data provided by the USDA/OIG.

INVESTIGATIONS

	% USDA Budget	% Workdays 10/80 - 3/81 4/81 - 9/81 10/81 - 3/82	% Cases Issued	% Recoveries	% Savings	% Collections	% Fines	% Claims	% Indictments
AMS	1%	.6%	9.4	-	45.9	2.6	-	-	
	.002%	.6	.2	-	-	-	-	.6	
		.8	.8	-	-	11.7	1.4	-	-
ASCS		10%	8.1	11.6	1.8	30.0	13.6	40.6	5.6
	about	9.6	8.0	54.3	.2	58.8	2.2	7.1	4.7
	10%	8.6	9.0	20.4	-	44.6	8.4	12.1	12.2
FmHA		21%	12.9%	43.1	36.8	13.9	9.4	10.2	4.6
	16%	18.7	14.9	6.0	11.9	30.0	8.2	5.8	4.6
		16.8	10.2	56.2	78.7	41.0	7.5	24.5	4.7
FNS	57%	44	49.4	35.6	61.3	10.3	68.4	49.2	79.4
		48.1	54.3	34.4	87.9	15.0	42.1	7.3	86.0
		53.3	55.2	22.1	6.2	1.9	76.5	38.8	80.7
FSQS		9%	7.2%				5.4	-	8.3
	neg.	7.1	4.6				6.3	2.4	2.2
		4.9	4.4				5.6	-	1.4
TOTALS		27,608	874	1,270,448	1,608,279	856,990	427,538	2,458,680	373
		29,231	1,010	1,900,876	609,185	651,175	317,844	13,189,649*	664
		28,438	960	3,785,650	3,785,652	1,007,544	429,251	3,467,863	362

* 10,000 claim against SEA.

Analysis by DORFA subcommittee based on data provided by USDA/OIG.

STATEMENT OF JOHN V. GRAZIANO, INSPECTOR GENERAL, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY DONN E ADKISSON, ACTING ASSISTANT INSPECTOR GENERAL FOR AUDITING; ANTHONY J. GABRIEL, DEPUTY INSPECTOR GENERAL; THOMAS J. BURKE, ASSISTANT INSPECTOR GENERAL FOR INVESTIGATION; AND ROBERT SMITH, ASSISTANT INSPECTOR GENERAL FOR SECURITY AND SPECIAL OPERATIONS

Mr. GRAZIANO. Thank you, Mr. Chairman. I would like to introduce my associates. On my far left is Donn Adkisson, who is our Acting Assistant Inspector General for Auditing. On my right is Mr. Tom Burke, who is the Assistant Inspector General for Investigation. To my immediate left is Mr. Anthony Gabriel, who is the Deputy Inspector General. Sitting to the left in the first row is Mr. Robert Smith, who is our Assistant Inspector General for Security and Special Operations. We have some other people in the back of the room who have also accompanied us.

I appreciate the opportunity to discuss with you the operations of the Office of Inspector General at the Department of Agriculture.

My testimony will address the questions and areas of interest mentioned in the attachment to your letter of July 19 in which you requested me to appear today before the subcommittee.

The first question regarding the enactment of the Inspector General Act of 1978, as to whether that hindered or helped USDA carrying out auditing and investigatory operations, I can answer by saying that I believe the IG Act of 1978 has greatly enhanced the effectiveness of the OIG operations by significantly improving the audit resolution process. It also provides statutory responsibilities and the independence so necessary to the IG concept.

Mr. Chairman, the next question had to do with the use of resources and if we had greater resources whether or not we could enhance the savings that we report.

We believe our operations have been highly cost-effective, with monetary returns to the Government estimated at several times the cost of supporting each operational investigator and auditor. An increase in resources could therefore be presumed to produce even greater benefits. However, we believe we can continue to provide adequate coverage of the Department's programs and activities at present staffing levels.

The next question had to do with the priorities of the OIG and how they are established and diffused throughout the Nation's seven regions and in the OIG overseas activities.

We concentrate our major efforts on those USDA programs which we have determined to have the highest risk or vulnerability to fraud and abuse or mismanagement. We give priority to those areas which pose the greatest threat to employee or program integrity. We also address those programs where the greatest loss prevention of Government money can be achieved.

These priorities are established by the Assistant Inspector General for Audit or the Assistant Inspector General for Investigations based on the same criteria. All overseas activities are treated as part of the overall audit and investigative universe.

I have provided for the record an organizational chart, functional statements, and a breakout of our staffing throughout the Nation.

Mr. BROWN. Without objection, the organizational chart, functional statements, and breakout of your staffing throughout the Nation will be included in the record at this time.

[Material to be provided follows:]

United States Department of Agriculture | Office of Inspector General | Washington, D.C. 20250

Date JUN 15 1982

Reply to Attn. of: 1200

Subject: Reorganization of the Office of Inspector General

To: Assistant Inspectors General
Regional Inspectors General
Staff and Division Directors

Attached is a copy of the new organization chart for OIG, which was approved by the Department on June 14, 1982. Also attached for your information and use are copies of the functional statements and the letter of approval signed by Deputy Assistant Secretary for Administration, John E. Schrote.

In accordance with my earlier memorandum (March 12, 1982), most activities have been functioning according to these guidelines. Please review the material and take any necessary action to make sure that your unit is performing its assigned functions. The Assistant Inspector General for Administration is preparing the necessary personnel actions to implement the new organizational structure. They should be completed in the near future.

JOHN V. GRAZIANO
Inspector General

Attachment

Mr. Brown. Please provide an OIG organizational chart showing full time staff levels by each division and branch, both for headquarters and field offices. Also please indicate each division level and above position which remains vacant or is filled in an acting capacity.

Mr. Graziano. Our first look at the FY 1982 operating budget planned for full-time permanent (FTP) employment of 882. However, this would create a deficit of about $2 million. Also, as late as December 1981, Congress proposed an additional four percent cut for OIG in FY 1982. This cut would have increased the deficit to $3 million if we kept FTP employment at our ceiling of 882 as planned. Based on this projected deficit and to prevent furloughs or RIFs, it was essential to maintain a reduced employment posture until the proposed pay supplemental is determined. Positions at Division level or above which are vacant or filled in an acting capacity are as follows:

Audit

* Assistant Inspector General for Audit--vacated by retirement in January 1982.
  Deputy Assistant Inspector General for Audit -- vacated by transfer in May 1982. Recruitment pending selection of AIG for Audit.
* Director, Food Programs Division for Audit -- position to be vacated by internal transfer on August 22, 1982.
* Regional Inspector General for Audit-Western Region -- Vacated in April 1982.

Investigations

* Assistant Inspector General for Investigations -- vacated by promotion and transfer in December 1981.
* Director, Farm Programs Division for Investigations -- vacated by retirement in July 1982.
* Regional Inspector General for Investigations-Western Region -- vacated in December 1981.

Analysis and Evaluation (newly established positions)

* Assistant Inspector General for Analysis and Evaluation
  Deputy Assistant Inspector General for Analysis and Evaluation
* Director, Statistical and Computer Analysis Division
* Director, Fraud Vulnerability Assessment Division

Security and Special Operations

* Director, Security Division
* Director, Special Operations Division -- vacated August 1982 by internal transfer.
* Director, Internal Operations Division -- vacated June 1982 by internal transfer.

Administration

* Director, Personnel Management Staff

* Recruitment is currently in process for these positions.

Mr. Brown. Provide a list of each division level and above position which has been filled by a new individual since January 1, 1981.

Mr. Graziano. Positions at Division level or above which have been filled by a new individual since January 1, 1981 are as follows:

Audit

Regional Inspectors General for Audit-North Atlantic Region -- position filled August 1981; Midwest Region -- position filled April 1981; and Southwest Region -- position filled August 1982.

Investigations

Director, Food Programs Division for Investigations -- position filled August 1982.
Regional Inspector General for Investigations-Southwest Region -- position filled August 1982.

Security and Special Operations (position established September 1981)

Assistant Inspector General for Security and Special Operations (position filled November 1981)

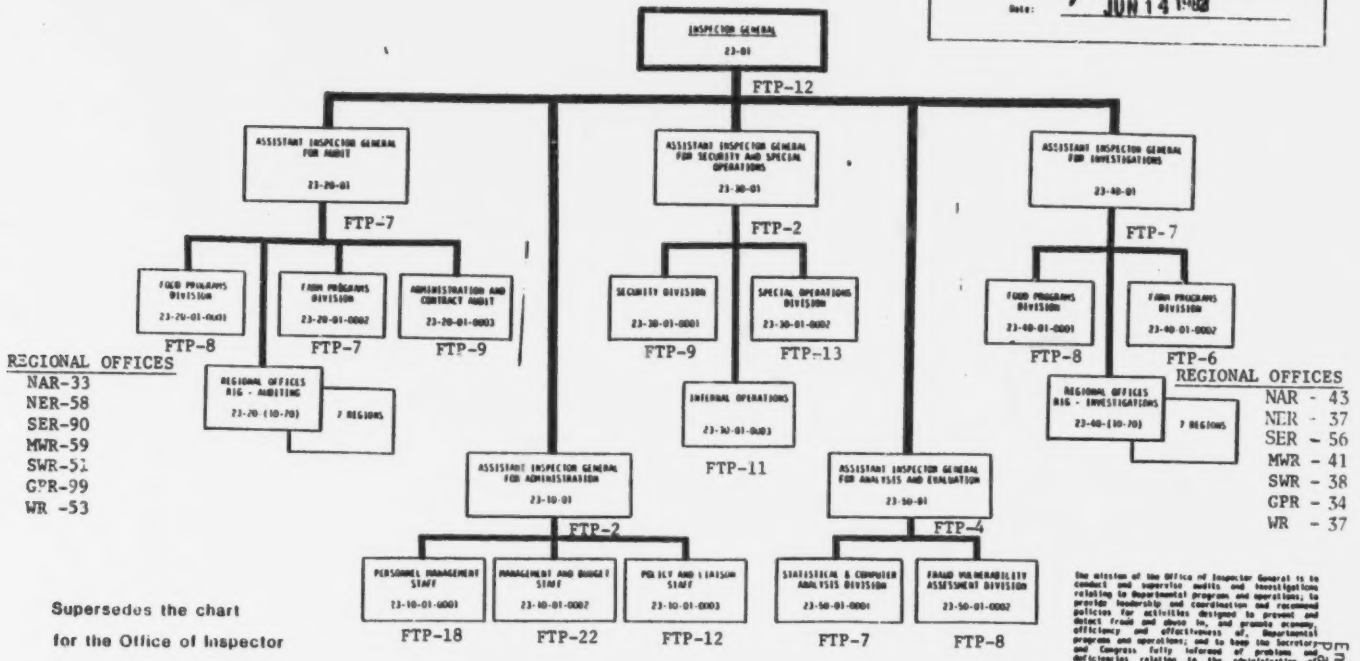
U.S. DEPARTMENT OF AGRICULTURE

Office of Inspector General

Recommended: John V. Grazziano, Inspector General

Approved: [illegible], Deputy Asst. Sec. for Admin.

Date: JUN 14 1982



REGIONAL OFFICES
NAR-33
NER-58
SER-90
MWR-59
SWR-51
GPR-99
WR -53

REGIONAL OFFICES
NAR - 43
NER - 37
SER - 56
MWR - 41
SWR - 38
GPR - 34
WR - 37

The mission of the Office of Inspector General is to conduct and supervise audits and investigations relating to Departmental programs and operations; to provide leadership and coordination and recommend policies for activities designed to prevent and detect fraud and abuse in, and promote economy, efficiency and effectiveness of, Departmental programs and operations; and to keep the Secretary and Congress fully informed of problems and deficiencies relating to the administration of Departmental programs and operations and actions designed to correct such problems and deficiencies.

Supersedes the chart for the Office of Inspector General dated Dec. 3, 1981

FTP= Full Time Permanent Staffing

DUE TO THE RECENT HEADQUARTERS REORGANIZATION (JUNE 14, 1982) ALL STAFFING LEVELS ARE UNDER REVIEW. ADJUSTMENTS TO THESE STAFFING LEVELS ARE ANTICIPATED IN THE NEAR FUTURE. These figures reflect our statistics of July 28, 1982.

14

OFFICE OF INSPECTOR GENERAL

ASSISTANT INSPECTOR GENERAL - INVESTIGATIONS

REGIONAL STAFFING

AUTHORIZED CEILING:

REGION/LOCATION	MAGMT.	PROFESSIONAL:	ADMINISTRATIVE:	TOTALS:
NORTH ATLANTIC REGION				
NEW YORK, NEW YORK	3	30	7	40
SUBOFFICE-WALTHAM, MASS.	-	7	-	7
SOBOFFICE-HATO REY, PR	-	3	-	3
TOTALS	3	40	7	50
NORTHEAST REGION				
HYATTSVILLE, MARYLAND	2	17	4	23
SUBOFFICE-KING OF PRUSSIA, PA	-	8	1	9
TOTALS	2	25	5	32
SOUTHEAST REGION				
ATLANTA, GEORGIA	3	22	7	32
SUBOFFICE-JACKSON, MISS.	-	6	-	6
SUBOFFICE-NASHVILLE, TENN.	-	5	-	5
SUBOFFICE-RALEIGH, NC	-	7	1	8
SUBOFFICE GAINESVILLE, FL.	-	5	-	5
TOTALS	3	45	8	56

OFFICE OF INSPECTOR GENERAL

ASSISTANT INSPECTOR GENERAL - INVESTIGATIONS

REGIONAL STAFFING

REGION/LOCATION	MAGMT.	PROFESSIONAL:	ADMINISTRATIVE:	TOTALS:
MIDWEST REGION				
CHICAGO, ILL.	3	9	6	18
SUBOFFICE-COLUMBUS, OH.	-	7	-	7
SUBOFFICE-INDIANAPOLIS, IND.	-	6	-	6
SUBOFFICE-ST. PAUL, MN.	-	7	-	7
SUBOFFICE-LANSING, MICH,	-	6	-	6
TOTALS	3	35	6	44
SOUTHWEST REGION				
TEMPLE, TEXAS	2	25	6	33
SUBOFFICE-DALLAS, TX	-	5	-	5
TOTALS	2	30	6	38
GREAT PLAINS REGION				
KANSAS CITY, MISSOURI	2	20	6	28
SUBOFFICE-DENVER, CO	-	6	-	6
TOTALS	2	26	6	34

OFFICE OF INSPECTOR GENERAL

ASSISTANT INSPECTOR GENERAL-INVESTIGATIONS

REGIONAL STAFFING

REGION/LOCATION	MAGMT.	PROFESSIONAL:	ADMINISTRATIVE:	TOTALS:
WESTERN REGION				
SAN FRANCISCO, CA	2	16	6	24
SUBOFFICE-LAGUNA NIGUEL, CA	-	7	-	7
SUBOFFICE-PORTLAND, OR.	-	5	-	5
TOTALS	2	28	6	36
INVESTIGATIONS REGIONAL TOTALS	17	229	44	290

OFFICE OF INSPECTOR GENERAL

ASSISTANT INSPECTOR GENERAL-AUDIT

REGIONAL STAFFING

AUTHORIZED CEILING:

REGION/LOCATION	MAGMT.	PROFESSIONAL:	ADMINISTRATIVE:	TOTALS:
NORTH ATLANTIC REGION				
NEW YORK, NEW YORK	3	11	4	17
SUBOFFICE-WALTHAM, MASS.	-	7	-	7
SUBOFFICE-HATO REY, PR	-	8	-	8
TOTALS	3	26	4	33
NORTHEAST REGION				
HYATTSVILLE, MARYLAND	3	39	7	49
SUBOFFICE-HARRISBURG, PA	-	8	1	9
TOTALS	3	47	8	58
SOUTHEAST REGION				
ATLANTA, GEORGIA	4	39	11	54
SUBOFFICE-JACKSON, MS.	-	8	-	8
SUBOFFICE-LEXINGTON, KY	-	7	-	7
SUBOFFICE-NASHVILLE, TN.	-	8	-	8
SUBOFFICE-RALEIGH, NC	-	7	-	7
SUBOFFICE GAINESVILLE, FL.	-	6	-	6
TOTALS	4	75	11	90

OFFICE OF INSPECTOR GENERAL

ASSISTANT INSPECTOR GENERAL-AUDIT

REGIONAL STAFFING

REGION/LOCATION	MAGMT.	PROFESSIONAL:	ADMINISTRATIVE:	TOTALS:
MIDWEST REGION				
CHICAGO, ILL	3	22	8	33
SUBOFFICE-COLUMBUS, OH.	-	7	-	7
SUBOFFICE-INDIANAPLIS, IN.	-	7	-	7
SUBOFFICE-ST. PAUL, MN	-	6	-	6
SUBOFFICE-LANSING, MICH.	-	6	-	6
TOTALS	3	48	8	59
SOUTHWEST REGION				
TEMPLE, TX	2	26	7	35
SUBOFFICE-LITTLE ROCK, ARK.	-	5	-	5
SUBOFFICE-DALLAS, TX	1	5	1	7
SUBOFFICE-ALEXANDRIA, LA	-	4	-	4
TOTALS	3	40	8	51
GREAT PLAINS REGION				
KANSAS CITY, MISSOURI	5	46	10	61
SUBOFFICE-DES MOINES, IOWA	-	3	-	3
SUBOFFICE-HURON, SD	-	4	-	4
SUBOFFICE-LINCOLN, NEB.	-	6	-	6
SUBOFFICE-ST. LOUIS, MO	-	15	-	15
SUBOFFICE-NEW ORLEANS, LA	-	9	1	10
TOTALS	5	83	11	99

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OFFICE OF INSPECTOR GENERAL

ASSISTANT INSPECTOR GENERAL-AUDIT

REGIONAL STAFFING

REGION/LOCATION	MAGMT.	PROFESSIONAL:	AIMINISTRATIVE:	TOTALS:
WESTERN REGION				
SAN FRANCISCO, CA	3	28	7	38
SUBOFFICE-LAGUNA NIGUEL, CA	-	5	-	5
SUBOFFICE-PORTLANS, OR.	-	9	1	10
TOTALS	3	42	8	53
AUDIT REGIONAL TOTALS	24	361	58	443

Mr. GRAZIANO. I would like to note that outside the headquarters staff in Washington, D.C., OIG is decentralized in both audit and investigations in seven colocated regional offices with attendant suboffices.

It should also be noted that our regional offices are in line basically with the Federal regional concept.

As the IG at the U.S. Department of Agriculture, it is my responsibility to address waste, fraud, and abuse in the Department's programs. My strong emphasis is on prevention, designed to avoid large dollar losses and to insure the integrity of employees and programs.

I also believe it is mandatory that I bring to light significant problems in the Department's programs, apprising the Secretary and the Congress of those with the potential for becoming monumental.

We were asked a question regarding the procedures followed by OIG in developing and transmitting policy changes and recommendations on legislative initiatives.

Our legislative remedies are transmitted to the Congress in several ways. They are often proposed in our semiannual report to the Congress and in oversight testimony before the Senate and House of Representatives committees. Suggestions for legislative improvement are also communicated informally between our personnel and committee staffs.

I have not been satisfied with the ad hoc nature of these procedures. Consequently, I recently assigned responsibility for the review, analysis, and coordination of legislative recommendations to a new headquarters staff element. This unit is now the control point for our comments on USDA draft legislation, proposed legislation by the Office of Management and Budget, or the President's Council on Integrity and Efficiency, and on bills introduced by the Congress.

Additionally, each Assistant Inspector General is responsible in his own area for reviewing existing and proposed legislation.

Mr. Chairman, I would like to offer for the record a copy of our draft directive which outlines these procedures in detail.

Mr. BROWN. Without objection, that will be made a part of the record at this point.

[Material to be supplied follows:]

DRAFT

IG-7411

COORDINATING, MONITORING AND PROCESSING
NON-OIG CONDUCTED AUDITS

OMB Circular A-73

The attached directive is part of the new series of audit procedures. Many of the audit procedures currently in effect are several years old so they are being updated, simplified, and renumbered. This section provides policy and procedures for carrying out audit responsibilities contained in OMB Circular A-73.

MATERIAL SUPERSEDED: None. New issuance.

JOHN V. GRAZIANO
Inspector General

December , 1981

DRAFT

IG-7411

COORDINATING, MONITORING AND PROCESSING
NON-OIG CONDUCTED AUDITS

OMB Circular A-73

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December 1981

DRAFT

IG-7411

COORDINATING, MONITORING AND PROCESSING NON-OIG CONDUCTED AUDITS

OMB Circular A-73

This section implements the policies set forth in OMB Circular A-73 for the Office of Inspector General (OIG) by enumerating policies, plans, and procedures it has issued for the guidance of its auditors.

A. BACKGROUND. OMB Circular A-73 was revised on March 15, 1978, to implement the President's memorandum of September 9, 1977, calling for improved coordination of audits of grants to State and local governments. The Circular's specific objectives are to:

1. Promote improved audit practices;

2. Achieve more efficient use of audit staff;

3. Improve coordination of audits;

4. Emphasize the need for early audits of new or substantially changed programs; and

5. Strengthen audit followup.

B. POLICY

1. Organization and Staffing. The OIG was established pursuant to P. L. 95-452, the Inspector General (IG) Act of 1978. This Act mandates organizational placement and lines of reporting, which assure organizational independence and top management level reporting. Policies, plans, procedures, and delegations of authority are detailed in IGM-1131.

2. Determination of Audit Priorities. IGM-7211, Planning and Programming, provides detailed policies, plans, and procedures which implement this section of Circular A-73.

3. Cross-servicing Arrangements. IGM-1612, Interdepartmental Agreements--Cabinet Level, provides policies, plans, and procedures which implement this section of Circular A-73. In addition to these Cabinet level agreements, it is OIG's policy to:

a. Rely on audits performed by other Federal audit agencies;

DRAFT

IGM 7411

(B 3)

b. Arrange with other Federal audit agencies to conduct audits for OIG; and

c. Perform joint audits with other Federal audit agencies whenever such arrangements are in the best interest of the Federal Government, the OIG, and the auditee.

Also, IGM-7412, OMB Circular A-87, and IGM 7413, OMB Circular A-88, contain detailed policies, plans, and procedures concerning audits performed by Federal cognizant audit agencies which OMB has designated to act on behalf of all Federal agencies in specified audit matters.

4. Reliance on Non-Federal Audits. IGM-7414, OMB Circular A-102, and IGM-7415, OMB Circular A-110, provide detailed policy, plans, and procedures for relying on non-Federal audits which implement this section of Circular A-73.

5. Audit Plans. IGM 7211, Planning and Programming, provides detailed policy, plans, and procedures which implement this section of Circular A-73 within OIG.

6. Coordination of Audit Work. IGM-1612, IGM-7412, IGM 7413, IGM-7414, and IGM-7415, contain detailed policies, plans, and procedures which implement this section of OMB Circular A-73 within OIG.

7. Audit of State and Local Governments. Annually the Assistant Inspector General for Auditing (AIG/A) shall furnish to OMB, the State and local portion of OIG's audit plan prior to the fiscal year in which they are implemented.

8. Audit Reports. IGM-7316, Audit Reporting, provides detailed policies, plans, and procedures concerning audit report standards. IGM-1411, Handling Requests and Releases, provides detailed policies, plans, and procedures for releasing audit reports under the Freedom of Information Act.

9. Followup. On June 12, 1981, the Secretary issued Secretary's Memorandum I720-1, Resolution of Audits and Establishment and Collection of Claims Arising from Audits. Within OIG. IGM-7318, Followup and Closure, provides additional policies, plans, and procedures for handling audit followup

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IG-7412

COORDINATING, MONITORING AND PROCESSING
Non-OIG CONDUCTED AUDITS

OMB Circular A-87

This section provides policy and procedures for carrying out audit responsibilities contained in OMB Circular A-87.

MATERIAL SUPERSEDED: None. New issuance.

JOHN V. GRAZIANO
Inspector General

Note:
(rest of material retained in
Subcommittee files)

September , 1981

Mr. GRAZIANO. I believe that, as the Inspector General at the U.S. Department of Agriculture, I am independent of all pressure groups. To emphasize this I would like to point out that I have had no interference or requests from anyone to alter an investigative report or an audit at any time since I have been the Inspector General.

It should be noted that OIG in USDA has been in business since 1962, and we do obtain our own annual appropriation from Congress, we select our own personnel, and dictate our own policy. We believe that all of these attributes give us a total degree of independence.

To further stress our independence, it should also be noted that we establish our priorities without outside influence or interference. While it is true that we are engaged with the President's Council on Integrity and Efficiency and other committees on matters of mutual interest, these entities do not dictate our priorities.

Our relationship with the President's Council on Integrity and Efficiency extends to the fact that I am a member of the President's Council, and the Inspectors General from all executive departments meet each month with the Chairman of the PCIE to discuss and exchange information of mutual interest or other issues involving the OIG community. There are approximately 25 projects involving inter-OIG activities, and we are voluntarily participating in about half of these.

As you may know, Mr. Chairman, we have extensive talent within OIG in the fields of accounting, investigation, computer science, and statistics. We have indepth knowledge of manifold USDA programs.

Occasionally, it does become imperative that we obtain specialized expertise not possessed in-house. We obtain the needed specialization by borrowing the individual from another Federal or State agency or contracting for the services required.

That concludes my prepared remarks, Mr. Chairman, and I am now open for any questions the subcommittee may have.

Mr. BROWN. Thank you, Mr. Graziano.

Do any of your associates wish to make any statements at this point?

Mr. GRAZIANO. I believe not, Mr. Chairman.

Mr. BROWN. Mr. Graziano, the Office of Inspector General is a peculiar hybrid from an organizational standpoint. I am sure this poses some problems, both from a theoretical and a practical point of view. As an example, let me ask you, in appearing here this morning and submitting testimony to this subcommittee, are you required or did you voluntarily submit your statement for clearance by the Office of Management and Budget?

Mr. GRAZIANO. I did not submit my statement for clearance to the Office of Management and Budget.

Mr. BROWN. May I take it then that there was no external review or approval required for the statement that you have made or for any similar statements that you might make?

Mr. GRAZIANO. Mr. Chairman, I did submit a copy of my statement for informational purposes to agencies within the Department, including the Office of General Counsel, which is a procedure that is established within the Department.

Mr. BROWN. However, they have not subjected you to any guidance as to what you could or could not say here?

Mr. GRAZIANO. No, sir, and in the case of this particular statement, the last thing we did last night was send it over to OGC. I have not heard from anyone in OGC.

Mr. BROWN. Well, I pose that as a theoretical question because, under the Inspector General legislation, you are in the peculiar position of having reporting responsibilities to both the Congress and the executive branch. I am not sure what that means. It might mean that if you submit your testimony to the executive branch for clearance before you offer it to Congress maybe we should have the same consideration. That is, when you appear and testify before the executive branch, we should clear your testimony down here.

However, I am not sure that we are set up to do that, and I am just speculating on how that would work.

With regard to the personnel of your Office, could you indicate the degree to which you are subject to the same rules and regulations—by that I mean basically the civil service procedures as far as recruitment, promotional, professional qualifications, and so on. You have indicated of course that you have considerable independence, but I am interested in knowing how far that independence goes as far as what you might call the routine management aspects of your office.

Mr. GRAZIANO. We do our recruitment and reassignment, promotions on the basis of civil service rules and regulations. I would like to point out, Mr. Chairman, that all of the people who are currently employees of the Office of Inspector General in the U.S. Department of Agriculture who were brought in during the time that I have been Inspector General are all career civil service employees. Almost all of them have been subject to a review of their qualifications for the positions.

In the cases where people were laterally transferred, there was a presumption by the Office of Personnel that they were qualified because they were lateralling into positions that existed, that were at the same grade.

We do not have any employees in the Office of Inspector General who are in the schedule C category or who came to us directly from outside Government.

Mr. BROWN. Schedule C refers to politically sensitive jobs.

Mr. GRAZIANO. Yes, sir.

Mr. BROWN. So you have no schedule C?

Mr. GRAZIANO. At this time, we do not have any schedule C. We did have a summer employee, a part-timer, who worked for us for a month or two last summer to assist us during the summer period who I believe was in the schedule C category. That was it.

Mr. BROWN. At what level do members of your executive staff go into this Career Executive Corps or Senior Executive Corps?

Mr. GRAZIANO. Mr. Adkisson is a GS-15 at the moment. He is acting as the Assistant Inspector General. Mr. Gabriel is in the senior executive service as a career General. He has been a working auditor with GAO and with other agencies within Government for 27 years.

Mr. Burke on my right here is in the SES category and rose through the ranks from the career service. Mr. Smith, who I al-

luded to earlier who is sitting in the front row, has also been in Government for perhaps 30 years or a timeframe nearby.

When they move from the GS-15 up to the SES level, which is a pay level more than anything else, as you know, Mr. Chairman, there are two types of jobs—career general and career reserve. The Assistant Inspector General for Audit, the Assistant Inspector General for Investigation, and the Assistant Inspector General for Security and Special Operations are in a career reserve category. This means that we fill those positions with people who come out of the career service.

We have an Assistant Inspector General for Administration, who has also been a longtime Federal employee.

Mr. BROWN. You do not go lower than that as far as this executive service is concerned. In other words your GS-13's and GS-14's are not in that.

Mr. GRAZIANO. They are in career service.

Mr. BROWN. They are in career service but not in this——

Mr. GRAZIANO. No, sir. What formerly was the GS-16, 17, and 18 level is now the SES level.

Mr. BROWN. As I understand the senior executive service, it was intended to encourage the pursuit of excellence in the executive group. It allows for a little more flexibility in assignment and compensation and in other aspects of the job so that presumably the executive level can be more responsive to the needs of the organization than to the requirements of the particular situation that may exist. Am I correct in this?

Mr. GRAZIANO. Yes, sir.

Mr. BROWN. Are you experiencing any difficulty in getting experienced professionals within these slots that you have indicated, or have you experienced excessive turnover or difficulty in retaining people in these slots?

Mr. GRAZIANO. Since I came to the Office of Inspector General we have had two people leave for other agencies as SES's who were in positions within. The former Assistant Inspector General for Investigation was promoted and accepted a position as a Deputy Inspector General. He was Mr. Burke's immediate supervisor. He was brought into Washington during a period of time that I was the Director of the Office of Investigation between 1974 and 1978.

When I arrived as the Inspector General, there was a gentleman acting as the Assistant Inspector General for Audit, who has transferred back to the Department of Labor from where he originally came in the capacity as Deputy Assistant Inspector General for Audit.

Mr. Adkisson was the regional Inspector General for Audit of our largest auditing region, and he is now in that acting capacity.

We feel we have an adequate number of personnel who come from the IG community who we can look at to fill our vacancies.

Mr. BROWN. You mentioned the fact that either Mr. Gabriel or Mr. Adkisson had come from GAO.

Mr. GRAZIANO. Mr. Gabriel, sir.

Mr. BROWN. Can you tell me the degree to which there is an exchange or interchange of personnel, lateral movement between GAO and the IG's Office—various IG's.

Mr. GRAZIANO. In my experience, Mr. Chairman, there have been a number of personnel from GAO who have moved into the executive branch in various IG shops.

If I may give an example, at the present time we are advertising a regional Inspector General position for audit in San Francisco, and we have had a number of GAO personnel express interest in that position. From time to time, we have had people contact us who are interested in moving into the IG community.

Conversely, we have had some people over the years who have moved out of the executive branch into GAO.

Mr. BROWN. So there is a substantial exchange or interchange between them.

Mr. GRAZIANO. I do not know how substantial it is, Mr. Chairman. In my experience I have seen some exchange.

Mr. BROWN. Mr. Gabriel, since you made that change, do you have any insight as to how frequent it is?

Mr. GABRIEL. Not exactly the frequency, but the audit community is a very closely related group of people who participate—many professional organizations. Word has a way of traveling within the community. I am speaking of the Association of Government Accountants and various other professional audit associations.

In my own experiences, I rose through the ranks in GAO from a GS-5 to an Assistant Director, and I spent 20 years there. My next move was to the U.S. Congress, House Appropriations Committee as the director, surveys and investigation staff. I had my options to return to the legislative branch—GAO—or try the executive branch. I went to NASA as the Assistant Inspector General for Audit and then on to a promotion as Deputy Inspector General at Agriculture.

However, through my career you have a tendency to meet and see a lot of people in the profession. You receive many phone calls from people expressing interest when job announcements come out. They would like to bid on them. So I cannot give you numbers, but I could say there is extensive interest and there is extensive dialog.

Mr. BROWN. There are no barriers that you know of to this kind of a transfer. It is not a matter of great difficulty within the Government organization.

Mr. GABRIEL. No, sir.

Mr. BROWN. Mr. Graziano, you made some reference to projects involving inter-OIG activities, approximately 25 such projects in which you are participating. Could you give us some examples of the kinds of projects which involve inter-OIG cooperation?

Mr. GRAZIANO. Yes, sir, Mr. Chairman, if I may look in my notes. I am looking for the one that we head up. This is one involving income matching, Mr. Chairman, in which we take a look by use of computer, matching the income of recipients for welfare benefits. These matches are with programs involving Department of Labor or HHS and ourselves, for example, projects whereby a person may be receiving food stamp benefits as well as benefits such as rent subsidies or aid to families with dependent children.

That is the type of project that we chair in the President's Council. There are a number of other projects such as computer security in which we participate. We look at computer-related fraud and

abuse because there is widespread use of the computer within our programs.

We have contributed resources and expertise to such projects as reviewing the administration and interagency coordination of suspension and debarment in programs and things of that type, Mr. Chairman.

In our semiannual report, Mr. Chairman, we showed that we devoted about 8 percent of total operational audit resources in fiscal year 1982, and we participated in varying degrees to 13 PCIE projects of the 25 we mentioned such as studies of letter credit, drawdown, management, and contractor-held Government property.

As I indicated, we are the lead agency in the PCIE project on income matching.

Mr. BROWN. Mr. Graziano, one of the major management changes taking place in Federal Government is the increased use of sophisticated computer setups, data banks, all of these related kinds of activities. Some of the most obvious cases of inefficiency, at least as far as the press and public are concerned, has sometimes involved the improper, inadequate use of computers or the failure of computer systems to keep us with growing needs or loads.

I am thinking specifically of the example of social security, which is not within your purview, but where the remarks that I recall from reading press accounts were that the agency actually had a massive, obsolete, inefficient system. The sheer process of change was so great as to almost overwhelm the system.

I raise that as an example to ask you if you have the resources necessary to cope with the problem of improving the management efficiency of large-scale computer systems within the Department of Agriculture, or do you feel that this is an area which is being satisfactorily handled at the present time?

Mr. GRAZIANO. Mr. Chairman, we can always perhaps have more people to devote to that endeavor. However, we devote between 20 and 30 staff-years to EDP auditing. So we are using the computer and computer technology quite extensively in our operations.

If I might give an example of our computer system development, in our recent review of development work for brucellosis information system by the Animal and Plant Health Inspection Service [APHIS], a nationwide computer system was planned by APHIS as part of efforts to improve information systems in the States. Our review included an assessment of the development work performed, the existing recordkeeping systems in five States, and portions of the automated system that had been implemented in two States.

Since we recognize that development work is continuing, we issued a draft audit report on June 21 of this year containing recommendations to assist program managers in implementing a system which will meet planned objectives.

We also made a general comment that in light of proposed budget cuts for the brucellosis program an in-depth analysis should be made to determine whether continued development of the system was warranted.

Mr. BROWN. It has been a part of the role of this subcommittee to encourage the Department to examine the opportunities for improving its own management efficiency through the improved use

of modern computer systems. However, exhortations to use the best computer technology do not always result in improved management, and this is where it is important that there be some ongoing analysis of the operations of these systems which I would presume would fall both within the line management of the Department and your Office as an independent auditing operation within the Department.

Mr. GRAZIANO. Mr. Chairman, if I may, I would like Mr. Adkisson, who as a former Regional Inspector General was very instrumental in a number of ADP operations, to answer that question.

Mr. ADKISSON. Mr. Chairman, we recognized the need for greater expertise in computer operations some time ago, and as a result of that recognition we assigned the total ADP responsibility on the audit side to the Great Plains region in Kansas City. The Department has five major computer installations, and we audit from acquisition through systems development through the entire life cycle of the major systems, particularly the financial accounting systems, that are computerized.

We have staffs onsite at each of those major computer installations. We maintain an inventory of systems that are being developed and those of major consequence as it relates to internal controls over the assets. We monitor those very closely.

I would say it is primarily in what would be closely related to weapons system development in the concept formulation stage. It will then move from this stage into a design stage. We have our people tracking progress and problems on these types of programs.

Mr. BROWN. Mr. Adkisson, you referred to maintaining a list or maintaining contact with a list of such projects underway—development projects. If that list is available in some reasonably brief form, I wonder if you could provide it to the subcommittee. We are very interested in that as a general problem.

Mr. ADKISSON. We can provide a list of the major projects underway.

Mr. BROWN. Without objection, the record will be held open to receive that information.

[Material to be supplied follows:]

ADP SYSTEMS INVENTORY

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE — NAME OF MAJOR SYSTEM	COMPUTER CENTER *	DEVELOPMENTAL / OPERATIONAL	AUDITED PRIOR TO FY 82	CURRENTLY BEING AUDITED	SCHEDULED FOR AUDIT FY 83
Accounting, Budgeting & Reporting	KCCC	2/ Oper.	X		
Financial Accounting System	KCCC	2/ Oper.	X		
Financial Management System	KCCC	2/ Develop.		X	
Appropriated Fund Program Accounting	KCCC	2/ Oper.	X		
Claims System	KCCC	3/ Oper.	X		
County Office Administrative Expense	KCCC	1/ Oper.	X		
County Office Workload Measurement	KCCC	1/ Oper.	X		
County Office Fund Allocation	KCCC	1/ Oper.	X		
Sight Draft Accounting	KCCC	3/ Oper.	X	X	X
Cash Receipts Allocation Process.	KCCC	3/ Oper.	X		X
Producer Payment Reporting	KCCC	1/ Oper.		X	
Conservation Reporting	KCCC	1/ Oper.	X	X	
Wool and Mohair	KCCC	3/ Oper.			
Peanut Allotment System	KCCC	1/ Oper.	X		
Tobacco Allotment System	KCCC	1/ Oper.			
Cotton Loans	KCCC	2/ Oper.			X
Sugar Loans	KCCC	2/ Oper.			
Producer Name and Address	KCCC	1/ Oper.		X	
Emergency Fertilizer Facility	KCCC	1/ Develop.			
Deficiency	KCCC	3/ Oper.	X		
Disaster	KCCC	2/ Oper.	X		
County Office Automation	KCCC	1/ Develop.		X	X
Farm Storage Facility & Equip.	KCCC	2/ Oper.	X		

1/ Management Information System
2/ Financial/Accounting System
3/ Cash Collection/Payment System

*Kansas City Computer Center (KCCC)

ADP SYSTEMS INVENTORY

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE — NAME OF MAJOR SYSTEM	COMPUTER CENTER*	DEVELOPMENTAL / OPERATIONAL	AUDITED PRIOR TO FY 82	CURRENTLY BEING AUDITED	SCHEDULED FOR AUDIT FY 83
Grain Inventory System	KCCC	4/ Oper.	X	X	X
Initial Random Input Segment	KCCC	2/ Oper.			
Loading Order Issuance	KCCC	1/ 2/ Oper.			
Warehouse Receipt Maintenance	KCCC	1/ 2/ Oper.			
Periodic Invoices and Accruals	KCCC	1/ 2/ Oper.			
Merchandising Segment	KCCC	1/ Oper.			
Inventory Reports and Warehouse Examinations	KCCC	1/ 2/ Oper.	X		
Warehouse Name and Address	KCCC	1/ Oper.			
Offer Rate Segment	KCCC	1/ Oper.			
Loading Order Settlement	KCCC	1/ 2/ Oper.			
Transit	KCCC	1/ Oper.			
Miscellaneous Position Accounts	KCCC	1/ 2/ Oper.			
Inventory Acquisition	KCCC	1/ 2/ Oper.			
Processed Commodity Inventory System	FCCC	Oper.			X
Input System	FCCC	1/ Oper.			
Freight Rates	FCCC	1/ Oper.			
Sales and Donations	FCCC	1/ 2/ Oper.			
Purchase and Processing	FCCC	1/ Oper.			
Inventory Management and Control	FCCC	1/ 2/ Oper.	X		
Payment and Control	FCCC	2/ 3/ Oper.	X	X	
Financial, Accounting, Recordation, and Maintenance	FCCC	1/ 2/ Oper.			
Loss and Damage Claims	FCCC	1/ 2/ Oper.			
Contract History and Performance	FCCC	1/ Oper.			
FNS Reporting	FCCC	1/ 2/ Oper.			

1/ Management Information System
2/ Financial/Accounting System
3/ Cash Collection/Payment System
4/ Grain Inventory System is presently undergoing redesign. We are providing a continuous monitoring e[illegible] for the redesign process.

*Kansas City Computer Center (KCCC)
Fort Collins Computer Center (FCCC)

ADP SYSTEMS INVENTORY

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE	NAME OF MAJOR SYSTEM	COMPUTER CENTER*	DEVELOPMENTAL / OPERATIONAL	AUDITED PRIOR TO FY 82	CURRENTLY BEING AUDITED	SCHEDULED FOR AUDIT FY 83
	Seeds	KCCC	1/ 2/ Oper.			
	Peanuts	KCCC	1/ 2/ Oper.			
	Sugar	KCCC	1/ 2/ Oper.			
	AMS Reporting	KCCC	1/ Oper.			
	Draft Writing	KCCC	3/ Oper.			
	Rice	KCCC	1/ 2/ Oper.			
	Training and Personnel	KCCC	1/ Oper.			
	Cotton	KCCC	1/ 2/ Oper.			
	Forest Incentives Program	KCCC	1/ Oper.			
	CCC Commodity Loans	KCCC	2/ Oper.	X		X
	Work Application	KCCC	1/ Oper.			
	CCC Budget System	KCCC	1/ Oper.			
	Non-Producer Reporting	KCCC	1/ Oper.			

1/ Management Information System
2/ Financial/Accounting System
3/ Cash Collection/Payment System

*Kansas City Computer Center (KCCC)

ADP SYSTEMS INVENTORY

FARMERS HOME ADMINISTRATION	NAME OF MAJOR SYSTEM	COMPUTER CENTER *	DEVELOPMENTAL / OPERATIONAL	AUDITED PRIOR TO FY 82	CURRENTLY BEING AUDITED	SCHEDULED FOR AUDIT FY 83
	Loan Making and Receivables Update Processing System	SLCC	1/ 2/ Oper.	X		X
	Appropriation Accounting	SLCC	1/ 2/ Oper.	X		
	Journals Maintenance/Reporting	SLCC	1/ 2/ Oper.	X		X
	File Dumps and Balancing	SLCC	1/ 2/ Oper.	X		
	Terminal System	SLCC	1/ Oper.	X		
	Loan Making Reporting	SLCC	1/ 2/ Oper.			
	Statistical Information Reporting	SLCC	1/ Oper.			
	Loan Receivable Reporting	SLCC	1/ 2/ Oper.			
	Fiscal and Calendar Year-End Processes	SLCC	1/ 2/ Oper.			
	File Maintenance/Reorganization	SLCC	1/ 2/ Oper.			
	Deposit Fund System	SLCC	2/ 3/ Oper.	X		
	Rental Assistance System	SLCC	1/ 2/ Dev./Oper.			X
	Stand Alone/Miscellaneous Systems	SLCC	1/ 2/ 3/ Oper.			
	Certificates of Beneficial Ownership	SLCC	1/ 2/ Oper.	X		
	General Ledger System	SLCC	1/ 2/ Oper.	X		
	Administrative Systems	SLCC	2/ Oper.		X	

1/ Management Information System
2/ Financial/Accounting System
3/ Cash Collection/Payment System

*St. Louis Computer Center (SLCC)

ADP SYSTEMS INVENTORY

FARMERS HOME ADMINISTRATION	NAME OF MAJOR SYSTEM	COMPUTER CENTER*	DEVELOPMENTAL / OPERATIONAL	AUDITED PRIOR TO FY 82	CURRENTLY BEING AUDITED	SCHEDULED FOR AUDIT FY 83
	Credit Reports	SLCC	1/ 2/ Oper.	X		
	Budget Reporting	SLCC	1/ Oper.			
	Four Phase Data Entry System	SLCC	1/ Oper.			
	Remote Job Entry	KCCC	1/ Devel.			
	Off-Line Cash Collection System	KCCC	2/ 3/ Devel.			
	Automated Cash Suspense System	SLCC	2/ 3/ Oper.			X
	Automated Discrepancy Processing System	SLCC	1/ 2/ 3/ Devel.		X	X
	Accounting System Redesign	KCCC	1/ 2/ Devel.		X	X
	Funds Receipt & Disbursement System	SLCC	1/ 2/ 3/ Devel.		X	X
	Conversion of Existing Accounting System to IBM	KCCC	1/ 2/ Devel.		X	X
	Guaranteed Loans System	KCCC	1/ 2/ 3/ Oper.	X		X
	Loan Disbursement System	SLCC	1/ 2/ Oper.	X		X

*Kansas City Computer Center (KCCC)
St. Louis Computer Center (SLCC)

1/ Management Information System
2/ Financial/Accounting System
3/ Cash Collection/Payment System

ADP SYSTEMS INVENTORY

FOREST SERVICE *	NAME OF MAJOR SYSTEM	COMPUTER CENTER*	DEVELOPMENTAL / OPERATIONAL	AUDITED PRIOR TO FY 82	CURRENTLY BEING AUDITED	SCHEDULED FOR AUDIT FY 83
	FORPLAN System	FCCC	1/ Develop		X	X
	Program Accounting and Management Attainment Reporting System (PAMARS)	FCCC	1/ Oper.			
	Timber Sales Accounting System	FCCC	1/ Develop			X
	Graphics System	FCCC	1/ Develop			
	Forest Level Information Processing System	FCCC	1/ Develop		X	X
	Working Capital Fund	FCCC	1/ Oper.			

*Approximately 400 other systems, of less significance, are listed in the Forest Service's Directory of Automated Systems, General Technical Report WO-4 issued in September 1979.

1/ Management Information System

*Fort Collins Computer Center (FCCC)

ADP SYSTEMS INVENTORY

FEDERAL CROP INSURANCE CORPORATION	NAME OF MAJOR SYSTEM	COMPUTER CENTER *	DEVELOPMENTAL / OPERATIONAL	AUDITED PRIOR TO FY 82	CURRENTLY BEING AUDITED	SCHEDULED FOR AUDIT FY 83
	Acreage Reporting System	KCCC	1/ Oper.			
	Accounting System	KCCC	2/ Oper.			
	Loss Application System	KCCC	3/ Oper.			
	Actuarial Statistics	KCCC	1/ Oper.			
	Marketing Sales	KCCC	3/ Oper.	X		
	Reinsurance	KCCC	3/ Oper.		X	

1/ Management Information System
2/ Financial/Accounting System
3/ Cash Collection/Payment System

*Kansas City Computer Center (KCCC)

ADP SYSTEMS INVENTORY

FOOD AND NUTRITION SERVICE	NAME OF MAJOR SYSTEM	COMPUTER CENTER*	DEVELOPMENTAL / OPERATIONAL	AUDITED PRIOR TO FY 82	CURRENTLY BEING AUDITED	SCHEDULED FOR AUDIT FY 83
	Food Stamp Redemption	FCCC	1/ Oper.			
	Investigation and Field Office Activities Reporting System	FCCC	1/ Oper.			
	Bank Monitoring System	FCCC	1/ Devel.			
	Program Accounting	WCC	1/ Devel.			
	Food Stamp Inventory Accountability System	WCC	1/ Oper.			
	ROAP New York Summer Food Program System	GEIS	1/ Oper.			

* WCC - Washington Computer Center
FCCC - Fort Collins Computer Center
GEIS - General Electric Information System

1/ Financial/Accounting System

ADP SYSTEMS INVENTORY

MULTI-AGENCY	NAME OF MAJOR SYSTEM	COMPUTER CENTER*	DEVELOPMENTAL / OPERATIONAL	AUDITED PRIOR TO FY 82	CURRENTLY BEING AUDITED	SCHEDULED FOR AUDIT FY 83
	Payroll/Personnel	NFC	Devel.	X	X	X
	Payroll/Personnel	NFC	Oper.	X	X	
	Central Accounting System	NFC	Oper.	X		X
	Property	NFC	Oper.		X	
	Billings & Collections	NFC	Oper.	X		X
	Billings & Collections	NFC	Devel.		X	
	Travel	NFC	Oper.	X	X	X
	Transfer of Official Duty Station	NFC	Oper.	X		
	Transportation	NFC	Oper.	X		
	AD-744 Purchase Order	NFC	Oper.	X		
	Telephone	NFC	Oper.	X		
	Gasoline Credit Card	NFC	Oper.	X		X
	Utilities	NFC	Oper.			
	Casual Time Employees	NFC	Oper.			
	AD-836 Purchase Orders	NFC	Oper.	X		
	Miscellaneous Payments	NFC	Oper.	X		
	Imprest Funds	NFC	Oper.	X		
	FEDSTRIP	NFC	Oper.	X		
	Motor Pool	NFC	Oper.			X

ADP SYSTEMS INVENTORY

ANIMAL AND PLANT HEALTH INSPECTION SERVICE NAME OF MAJOR SYSTEM	COMPUTER CENTER *	DEVELOPMENTAL / OPERATIONAL	AUDITED PRIOR TO FY 82	CURRENTLY BEING AUDITED	SCHEDULED FOR AUDIT FY 83
Brucellosis Information System	FCCC	1/ Devel.		X	

*Fort Collins Computer Center (FCCC)

1/ Management Information System

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Mr. BROWN. I was going to inquire about one such project which I recall seeing some reference to in one of your reports, Mr. Graziano. That was the development in one State—perhaps it is expanded now—of a smart card for food stamp recipients which allows the client to present the card, to have the food stamps used debited from the total that is in the card, and to maintain a running total then of both food stamp entitlements and food stamps used.

That could be a prototype of a lot of very interesting developments, and I wanted to ask you if you could indicate what has happened to that type of activity and what are the prospects for the future in that type of activity? Also, what is the relationship of your Office to that as development takes place?

Mr. GRAZIANO. The State that you mentioned, Mr. Chairman, is Michigan, and Mr. Burke is monitoring that very closely. With your permission, I would ask him to add some additional information.

Mr. BROWN. Mr. Burke?

Mr. BURKE. Mr. Chairman, the smart card is something analogous to an American Express or other credit card, which has embedded in it a microchip record which keeps track, in this instance, of the recipient's running balance of food stamps in any given month.

The card is carried by a recipient to a grocery store which has companion equipment. As the recipient purchases food, the purchase is subtracted from the initial amount that was embedded into the card in the first place.

The card has several limitations. It has to be loaded frequently with new chips because what we find in dealing with recipients in the food stamp program is that they buy from the grocery store every day or every other day. They do not have large refrigerators and freezers to enable them to buy weekly. So they will have, in the course of a month, maybe 20 or 30 transactions at a grocery store.

The limitations of the current smart card is that it will only accommodate somewhere in the neighborhood of 50 transactions. This requires that the recipient would have to go back to the county office which issues the card in the first place and have it regenerated.

We are looking at a new microchip for the card which will allow upward of 100 or more transactions. Then possibly we can get a whole quarter's allotment of fees and accounting into the system.

The device is not new. It is very viable in France where it is used extensively for shopping in department store type operations.

We find that we have not as yet gone out as a full demonstration to formulate the prototype that you mentioned. It is still under constant study. There are certain beneficial aspects to it because it does do away with the necessity for the coupons themselves. We have advocated to get rid of what is called the ATP, which is a voucher type operation. If we can get rid of the ATP, we will reduce not only administrative costs but also fraud.

The problems basically are the grocery stores. They are not all large supermarkets who have funds to go out and buy companion equipment. The companion equipment in say a large store like the

Safeway would be little problem. They could have it on line direct to the bank so the transfer of funds right after the $50 purchase or whatever could be credited to the Safeway account from the food stamp account.

We are dealing with a lot of mom and pop stores. Mr. Chairman, we have roughly 230,000 stores throughout the United States in our program. We are still trying to put this process into a test situation in Michigan. I just signed off on some correspondence which indicated that we may be able to obtain some of the companion equipment needed by the grocery store a little cheaper. It is not on-line equipment but a cassette type loading operation where at the end of the day or the end of the week the cassette data could be transferred over a telephone to a banking activity.

It has a great deal of potential. We like it too from a security viewpoint. These cards are not tamper-proof, but they are pretty close to it.

Mr. BROWN. The system's problem is not essentially different from that that the food stores encountered as they converted to the use of the scanners, I presume.

Mr. BURKE. It is similar. It reads the bites in the micro.

Mr. BROWN. I am thinking of the fact that it is only the larger stores that have installed the scanners. The small ones still do not have them. The large ones with the scanners can improve their efficiency and economy by using these systems for inventory control and restocking and a lot of things like that, as the food stamp card could if it were put into universal use.

Mr. BURKE. It could be integrated with that system very easily.

Mr. BROWN. Of course, ultimately we probably will be using credit cards with the same capability so that everybody in effect will have a card that will debit their bank account or their credit card account or whatever it is.

I meant too severely to the degree that this is being looked at as a system problem and integrated with other parallel developments or at least to the extent to which your project is cognizant of others in taking advantage of other technological developments which are relevant to it.

I presume that you have in your monitoring staff individuals who are abreast of the technological changes and capable of making use of the latest developments that take place. For example, the next generation of chips will probably have many times the capabilities of the present generation that are installed in the cards that you are using. One hundred transactions might be a very elementary thing to take care of with a somewhat larger sized memory chip.

Mr. Graziano, going back to your testimony for a moment, you referred to the decentralized nature of the organization and the fact that you were colocated in seven regional offices. I am not sure what you mean by colocated. Does that mean you are located with the regional Department of Agriculture offices? Does it have some other meaning?

Mr. GRAZIANO. No, sir. The meaning that I intended was that our audit and investigative components are colocated in the regional offices. That is not altogether true at all times in some of our smaller offices.

Mr. BROWN. Mr. Graziano, one of the things that we have looked at is the extent to which your recommendations are being followed up to ascertain the degree to which changes are being made and so on. You have indicated in some of the material you have presented what looks like an excellent record on audit completions. There were a few cases in which I, in looking at your reports, was not able to determine whether there had been adequate followup because there was no reference made to a previous recommendation. I am going to give you one or two examples and ask you to comment on that.

I am looking at your April 1–September 30, 1981, report. On page 35 of that report you say you have made recommendations to the Food and Nutrition Service regarding sampling procedures that we feel should be considered in future quality control programs. Your subsequent report made no reference to whether or not that kind of recommendation had been followed up on, and if we are going to use your reports constructively I think we want to ascertain whether or not your recommendations, particularly where they involve the improvement of efficiency of management, have actually been followed up on or are being disregarded.

Mr. GRAZIANO. Yes, sir, Mr. Chairman. I would like Mr. Adkisson to address your question.

Mr. ADKISSON. I am not sure that I have an answer to that specific question at this time, but we will be glad to provide it for the record.

Mr. BROWN. That would be fine. If you do not have the information off the top of your head, which is quite frequently the case, we would like a followup on that.

Without objection, the record will be held open to receive that information.

[Material to be supplied follows:]

(Material submitted by Department of Agriculture:)

Mr. Brown. What is the status of the three audit efforts mentioned on pages 35 (FNS), 60 (ASCS) and 72 (FmHA) of the Fall 1981 Semiannual IG Report to Congress?

Mr. Graziano. The status of the three audit efforts follow:

AUDIT OF FmHA RURAL HOUSING PROGRAM - INTEREST CREDIT

In the Semiannual Report of November 1981, we cited audit recommendations as follows:

- Interest credit agreements to be renewed annually rather than biannually.

- Borrowers to provide significant changes to income during the agreement, at which time FmHA will make appropriate adjustments.

Corrective action has progressed at the direction of the Under Secretary for Small Community and Rural Development. FmHA will publish final rules in October 1, 1982, and implement procedures for revising the interest credit agreement. We plan to do a follow-up audit of the process in FY 1983.

AUDIT OF THE ASCS EMERGENCY FEED PROGRAM

The 1981 Farm Bill made this program discretionary. Subsequently, in March 1982, the Department terminated it. We have not done any follow-up audit work on the nationwide report, but have audited payments in Kansas, Missouri, and South Dakota. Several disputed issues in the subject report were referred to the Office of General Counsel. We have not received a reply, but will continue to follow up with OGC because the program could be reactivated.

AUDIT OF FOOD STAMP PROGRAM QUALITY CONTROL SYSTEM

This audit recommended that FNS revise program regulations to establish both sample precision and confidence levels, and to require the use of dollar-value sampling to determine sample sizes. FNS was initially concerned the sample sizes would be significantly increased when States were already having difficulty completing cases sampled under current methods. However, the response to the audit report stated that FNS would develop and review proposals to improve sampling precision but would not change the current method of determining sample size. This effort is currently underway and we continue to monitor the progress.

Mr. GRAZIANO. Mr. Chairman, perhaps that does pertain to the school lunch program. Generally, our procedures are that if they did not accept our recommendation we would then report it as such. However, if the recommendation was adopted we would feel a lack of necessity for reporting on that.

Mr. BROWN. You can indicate that in your followup.

Let me give you a couple more, and you can followup on those at the same time. I am looking at the same report on page 60 with regard to your study of the ASCS. You say that ASCS officials commented on our draft report and contended that amendments to program procedures would improve the method of determining pasture losses because the system for setting the caring capacities [stocking rate] and the extent percentage of disaster loss had been changed. Then there is no subsequent indication in following reports that action was taken on that.

I would like to know just what developed as a result of that.

Mr. GRAZIANO. If we may, we would like to provide that for the record. I would have to go back and research that, Mr. Chairman.

Mr. BROWN. Without objection, the record will be held open to receive that information.

[See previously submitted material.]

Mr. BROWN. Let me just give you one more. I want you to know that we do read these reports. This is on page 72 of the same report. You say that an acceptable corrective action plan was developed by Farmers Home Administration which requires interest credit agreements to be reviewed annually rather than biannually and borrowers to provide significant changes to income during the agreement, at which time Farmers Home will make appropriate adjustments.

Again, there is no reference in the following report to anything that happened there. Of course, each of these refers to a different agency within the Department. They are all important. The Agriculture Committee has frequently had occasion to discuss some of the points that you are making here with regard to the operations of these agencies. It may well be that the matter was followed up in some adequate fashion, and it was felt there was no need for additional reference to it, which is perfectly fine.

However, I would just like to understand specifically what happened in the light of the fact that the act makes specific reference to the responsibility of the IG to issue a followup report where corrective action is recommended and may or may not be taken by the agency.

Mr. ADKISSON. Mr. Chairman, in preparing our semiannual report, we do review the previous incorrect or incomplete actions taken in the prior semiannual report. In those cases where corrective action has not been initiated, we comment on those particular reports in the section that deals with unresolved audits.

In the absence of a comment, corrective action has been initiated on those issues that were described in the prior semiannual.

We have not commented in the past specifically on the recommendations in a prior semiannual if corrective action has been initiated.

Mr. BROWN. That sounds reasonable. However, we just want to understand this situation a little bit better.

Mr. GRAZIANO. We will obtain the necessary backup and present it to the subcommittee, Mr. Chairman.

Mr. BROWN. Without objection, the record will be held open to receive that information.

[See previously printed material.]

Mr. BROWN. All three of these are what I would consider recommendations for management improvements, for increased efficiency in the operation. Although they would result in better controls, they are not what I would think of, as a nonprofessional in the field, audit reports per se, which I take to mean financial audits of transactions to make sure they are accurate and devoid of fraud and so forth.

Perhaps because of my lack of training in this field, I tend to attach somewhat greater weight to the improvement of management activities. I want to try and understand the relationship of the IG to this process of trying to improve management activities because I have seen an awful lot of activities that were absolutely perfect from the standpoint of keeping track of records and so forth. However, we are absolutely lousy from the standpoint of really being an efficient use of resources. You may comment on that.

Mr. GABRIEL. Mr. Chairman, just to add somewhat to your statement with regard to audits, we do follow standards for audit of Government organizations. This publication, "Standards for Audit of Governmental Organizations, Programs, Activities and Functions," is issued by the Comptroller General of the United States.

In the area that you were discussing, the types of audits are described in the GAO standards as financial and compliance, economy and efficiency and program results. So there are various types of audits, and we get involved in all these types.

Mr. BROWN. You use the term audit in a broader sense than what would be the normal accounting sense.

Mr. GABRIEL. Yes, sir, beyond compliance and beyond economy and efficiency.

Mr. ADKISSON. If I might add, too, Mr. Chairman, that the vast majority of our reports are in the economy and efficiency range as opposed to financial of individual entities.

Mr. BROWN. We want to understand that as clearly as we can. Some of the prepared questions which we are submitting to you will give you a chance to elaborate on that a little bit if you will.

Mr. GRAZIANO. Thank you, Mr. Chairman.

Mr. BROWN. You have been very cooperative this morning, gentlemen. I have only missed one rollcall, so I think we have come off pretty well. Let me thank you for your responsiveness. We have not exhausted even the areas that we touched on briefly here, but you have given us pretty good insight into your overall approach.

If you will help us out with a more leisurely response to the questions which have been drafted by the staff, we would appreciate it very much. There is no particular hurry on that, but we do

anticipate that we might want to pursue a followup hearing with you perhaps some time in September or October, depending on the subcommittee's schedule.

Mr. GRAZIANO. Yes, sir, Mr. Chairman. Thank you for the opportunity to appear before you.

Mr. BROWN. Thank you again. The subcommittee will be adjourned.

[Whereupon, at 10:37 a.m., the subcommittee adjourned.]

[Appendixes to the hearing follow:]

APPENDIX 1

U.S. House of Representatives
Committee on Agriculture
Subcommittee on Department Operations,
Research, and Foreign Agriculture
Room 1301, Longworth House Office Building
Washington, D.C. 20515

July 27, 1982

Memorandum

To: Honorable George E. Brown, Jr.
Chairman

From: Charles Benbrook
Staff Director

Subject: Oversight of the Office of Inspector General in the USDA

Extensive background information on the Office of Inspector General (OIG) in the U.S. Department of Agriculture has been compiled and reviewed. Personnel in the OIG have been very helpful and responsive to the Subcommittee's requests for statistical information on their activities. Interviews have been conducted with a number of former and current policy-level officials in the OIG and affected USDA agencies. The views and comments of these individuals have helped develop a more accurate understanding of the mechanics of OIG activities, how the OIG becomes involved in the policy-making process, and its interaction with other Executive Branch agencies and the Congress. Specialists in the Congressional Research Service and the General Accounting Office have assisted the Subcommittee in carrying out a number of specific analytic tasks.

A number of generic issues involving the activities of the OIG have emerged. This memorandum will explain the nature of these issues, drawing heavily upon the background information and analyses conducted to date. In addition, lines of questioning will be suggested in order to clarify the position of the OIG on four major issue areas:

* Compliance with the Inspector General Act of 1978
* Priorities of the OIG
* Independence of the OIG from Political Influence
* Professional Integrity of the OIG

The Inspector General Act of 1978 states that the general purpose of OIG's is to conduct independent and objective analyses of agency programs and policies. The two major areas of OIG activity are audit and investigations with each unit headed by an Assistant Inspector General. There are about 325 full-time staff in the investigation unit, and some 410 in the audit branch. The remaining 165 staff slots are engaged in other OIG activities. Questions are appended to this memo asking the OIG to provide up-to-date information on the personnel assigned to various branches.

Many individuals closely associated with the OIG have expressed concern about the loss of professional, management level expertise in the last two years. They fear that the high rate of turnover observed may lead to difficulties in maintaining continuity of OIG actions, and in adequately following through on major programmatic recommendations from earlier OIG audits and investigations.

A related issue has also surfaced. The OIG has traditionally maintained strict accordance with professional standards. An integral part of this institutional commitment to excellence has been the OIG's adherence to career exerience and accomplishments, and other substantive professional qualifications when making promotional decisions and filling responsible management positions. Many individuals in and out of the OIG claim that major changes have been made during this Administration in both the procedures and criteria utilized in making personell decisions.

The Inspector General Act of 1978 requires the OIG to report semiannually to Congress on its activities. The Act states very explicitly what such reports are to contain. Based on our review to date of these OIG reports, two of these requirements appear to not be fully met:

> (2) a description of the recommendations for corrective action made by the Office during the reporting period with respect to significant problems, abuses, or deficiencies identified pursuant to paragraph (1);
>
> (3) an identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed;

DORFA may wish to pursue the OIG's plans to comply with these provisions. The phrase "corrective action" is critical because it may have a technical meaning in certain audits which is not obvious. Another semantic issue should be raised. Recent OIG reports state that the number of "unresolved audits" has fallen precipitously from several hundred to less than a dozen. It is important to determine when OIG determines an audit to be resolved, and whether or not there has been a change in interpretation of this phrase since the change in Administration.

Priorities of the OIG

In response to questions submitted by DORFA, the OIG has provided an excellent, up-to-date statistical summary of its activities over the last three years. Information has been provided by line agency of the Department showing the amount of resources allocated to audit and investigatory activities related to each agency and the results of those activities. Based on these tables of information, a number of summary tables were developed which attempt to show the distribution of OIG effort and accomplishments. The basic tables are attached, and OIG will be asked to review them for accuracy.

Several observations can be made from review of these tables. The table "Summary of Audit Statistics" suggests a major shift from "hard" to "soft" program accomplishments. The ratio of hard to soft savings fell overall from $2.6 / $1.00 in the October 1980 through March 1981 period, to $.73 / $1.00 in the October 1981 through March 1982 reporting period. Does this shift represent a change in emphasis from "hard" to "soft" savings, and if so, why? Other questions on audit priorities are attached.

A main concern of many observers--borne out by DORFA's preliminary analysis--is that the OIG has progressively concentrated its resources on individual abuses of USDA programs, especially those administered by the Food and Nutrition Service. Data provided by OIG suggest that the economic return to audit activities in FNS are variable, ranging from 18.8% to 66.8% of the collections recommended per six-month reporting period. Results from investigative activity appear to be more predictable, with a fairly proportional relationship between percent resources allocated and percent of indictments issued. Like audit work, monetary results from FNS investigatory activity appear highly variable. Questions are attached which attempt to clarify the temporal relationship between activity and results for both audit and investigatory work.

A major concern repeatedly expressed is that the OIG is focusing on areas of activity where quantitative results are relatively easy to obtain. In addition, activities which lead to multiple accomplishments appear to be favored throughout the ranks. The explanation of this shift in emphasis most often heard was that the Administration has clearly articulated its views on the role and functions of OIG's and that quantifiable results are to be obtained. When translated down through the organization, this emphasis tends to discourage agents from taking on difficult, protracted cases where the results are more likely to be preventative rather than punative.

This change in emphasis on the investigatory side of the OIG has other potentially significant ramifications. According to OIG, nearly one-half of USDA's employees carry out some inspection-related activities. Inspectors play a critical role in assuring the integrity of the U.S. agricultural export system by enforcing commodity standards, checking weights, and otherwise regulating export markets. Inspectors also play a vital role in protecting public

health from unwholesome foodstuffs. The economic impact of inspection actions on meat packers, poultry producers, grain exporters, and many other business interests is considerable. OIG investigations have uncovered numerous schemes where USDA inspectors have been involved in conspiracies whereby standards are relaxed or ignored in return for monetary favor.

The results of such schemes could tarnish the reputation of the U.S. as a reliable supplier of agricultural exports. The public health consequences of adulterated or infectious foodstuffs entering channels of commerce are also troublesome. The number of OIG investigations of inspection activity, however, appear to be declining. One explanation offered is that these cases are difficult and generally lead to limited quantifiable results (other than stopping the scheme). A line of questioning regarding the IG's perceptions of inspector fraud would be helpful to better understand how the IG approaches this type of problem.

Independence of the OIG

The Inspector General Act of 1978 states clearly and repeatedly that the OIG is to concurrently and equally serve the Agency and Congress. The Act states that the IG "shall be under the general supervision of the head of the establishment involved." Based on staff interviews, the current IG at USDA appears to interpret this as a rather binding supervisory relationship. It is unclear whether the IG has remained equally responsive to Executive Branch and Congressional needs as required by the Act. One question which would shed light on this issue is: "Did the Department and/or the OMB review or clear your prepared testimony presented before the Subcommittee today; and has earlier testimony presented by you to other committees of Congress been cleared?"

It is apparent that the current IG is very responsive to the priorities and policies of the current Administration. The extent to which the IG has also emphasized Congressional priorities should be explored further, as should the IG's perception of his role in policy analysis and formation within the Department. A related issue is the IG's understanding of his appropriate role when communicating with Congress.

Overview

Throughout the federal government, OIG's have assumed a far more visible and active role in bringing about compliance with Administration policy objectives. This responsiveness to the Executive Branch may have come at the expense of responsiveness to Congress. By the same token, the OIG in USDA has compiled an impressive record of achievements, many of which are economic in nature and beneficial in the Administration's effort to attain more cost-effective administration of major federal programs. The Subcommittee should consider ways to assist the IG in these successful efforts, and may want to consider recommending that the Administration provide the OIG with greater resources.

Attention needs to be directed to other responsibilities of the IG which this Administration appears to be less enthusiastic about pursuing. Perhaps the OIG has determined that these functions are not important or are adequately taken care of by other means. Information in this regard should be shared with the Subcommittee.

The activities and findings of the OIG can affect Congressional perception of federal programs in a number of ways. Such perceptions, in turn, may alter budgetary allocations and priorities, and may even lead to major legislative modifications. In the case of FNS, it appears that program effort and negative program findings are roughly proportional. The steady flow of program recommendations may disproportionally reflect upon the extent of problems in FNS programs vis-a-vis other programs of the Department. Does the OIG have reason to believe that programs other than those in FNS are less prone to waste, fraud, and abuse? If so, what information supports the OIG's reasoning in this regard?

One other consideration may warrant attention. "Waste and abuse" in the food stamp program largely entails, according to OIG, an individual or a family receiving $20 to $30 more stamps per month than they are qualified to receive. The extent to which the unqualified recepient "wastes" this additional allotment may, in part, be a subjective judgment. "Waste and abuse" in other programs where commodities are allowed to spoil or rot, where adulterated meat is allowed to enter channels of trade, or where loan subsidies are granted to unqualified borrowers may be a markedly more serious and irreversible form of waste. The differences in who benefits and who looses from program abuses and the nature and extent of the public losses incurred raises a difficult set of questions which seem relevant in order to appraise OIG priorities.

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL - AUDIT
SUMMARY OF FINDINGS
RELEASED AUDITS
BETWEEN OCTOBER 1, 1980 AND MARCH 31, 1981

	RELEASED MONETARY VALUE IN THOUSANDS REPORTED - BY CATEGORY									
Agency/Program	Collec. Recom.	Collec. Condit.	Program Improve.	Improper Expend.	Direct Loans Collec. Recom.	Direct Loans Collec. Condit.	Guaran. Loans Cancell. Recom.	Guaran. Loans Cancell. Condit.	Program Improve.	Improper Expend.
ASCS										
Agricultural Conservation	11									
Commodity Loans & Purchase										
Grain Reserve	62				41					
Facility Equipment Loans	6	19			107	374				38
	79	19			148	374				38
FmHA										
Business & Industrial Loan	623									
Emergency Loan										
Farm Operating Loan					6,231	4,701	328	2,262		
Rural Housing Loan	4	940	7	62	20				348	2
	627	940	7	62	6,251	4,701	328	2,262	348	1,560
										1,562
FS										
Personnel & Financial Mgt.			1							
ADP Procurement Mgt.			8							
ADP Telecommunications Mgt.			1							
Recreation Management			40							
Land Uses Management			54							
Fire Management			100	3						
				3						
FNS										
Women, Infants, & Children	2,227	348	873							
	2,227	348	873							
TOTAL	2,933	1,307	980	65	6,399	5,075	328	2,262	348	1,600

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL - AUDIT
SUMMARY OF FINDINGS
CLOSED AUDITS
BETWEEN OCTOBER 1, 1980 AND MARCH 31, 1981

Agency/Program	RELEASED MONETARY VALUE IN THOUSANDS REPORTED - BY CATEGORY									
	Collec. Recom.	Collec. Condit.	Program Improve.	Improper Expend.	Direct Loans Collec. Recom.	Direct Loans Collec. Condit.	Guaran. Loans Cancell. Recom.	Guaran. Loans Cancell. Condit.	Program Improve.	Improper Expend.
ASCS										
Agricultural Conservation	3									
Facility Equipment Loans					30	72				
Disaster Payment Purchase	86	98								
	89	98			30	72				
FmHA										
Emergency Loan					79	448				
Farm Operating Loan				2						38
Rural Housing Loan	5		14	7	31	29				
	5		14	9	110	477				38
FS										
Personnel Practices			6							
Procurement & Property Mgt.			166							
Financial Management			10							
ADP Procurement Mgt.			4							
ADP Telecomm. Mgt.			-2							
External Relations			100							
Range Management			39							
Recreation Management			20							
Timber Management			137							
Land Uses Management			460							
Silviculture Practices			823							
Fire Control			20							
Engineering			150	11						
			1,937	11						
TOTAL	94	98	1,951	20	140	549				38

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL - AUDIT
SUMMARY OF FINDINGS
RELEASED AUDITS
BETWEEN APRIL 1, 1981 AND SEPTEMBER 30, 1981

	RELEASED MONETARY VALUE IN THOUSANDS REPORTED - BY CATEGORY									
Agency/Program	Collec. Recom.	Collec. Condit.	Program Improve.	Improper Expend.	Direct Loans Collec. Recom.	Direct Loans Collec. Condit.	Guaran. Loans Cancell. Recom.	Guaran. Loans Cancell. Condit.	Program Improve.	Improper Expend.
ASCS										
Disaster Payment	33	622								
	33	622								
FmHA										
Business & Industrial Loan								24,394		313,108
Emergency Loan			3,706,666		7,963	5,284				49
Farm Operating					39					395
Irrigation/Drainage/Soil Conservation Loan										480
Rural Housing Loan	11			84	114	450				44
	11		3,706,666	84	8,116	5,734		24,394		314,076
FS										
Financial Management	39		43							
Timber Management	67									
Land Uses Management	301	1	152							
Engineering Activities	29									
	436	1	195							
FNS										
Women, Infants & Children	19		34							
	19		34							
TOTAL	499	623	3,706,895	84	8,116	5,734		24,394		314,076

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL - AUDIT
SUMMARY OF FINDINGS
CLOSED AUDITS
BETWEEN APRIL 1, 1981 AND SEPTEMBER 30, 1981

	RELEASED MONETARY VALUE IN THOUSANDS REPORTED - BY CATEGORY									
Agency/Program	Collec. Recom.	Collec. Condit.	Program Improve.	Improper Expend.	Direct Loans Collec. Recom.	Direct Loans Collec. Condit.	Guaran. Loans Cancell. Recom.	Guaran. Loans Cancell. Condit.	Program Improve.	Improper Expend.
ASCS										
Grain Reserve	59									
Facility Equipment Loans			703		148	19,741	145			
Disaster Payment	33	622								
	92	622	703		148	19,741	145			
FmHA										
Business & Industrial Loan	623							24,934	6,826	339,510
Emergency Loan					8,039	5,449				49
Farm Operating				19	813	88				469
Irrigation/Drainage/Soil Conservation Loan										480
Rural Housing Loan	162,708	3	1	95	210	2,175				582
Soil & Water Loan					5					
	163,331	3	1	114	9,067	7,712		24,934	6,826	341,090
FS										
Organization & Management			234							
Procurement & Property Mgt.			700							
Financial Management	52		656							
Recreation Management			2,250							
Timber Management	67									
Land Uses Management	301	1	152							
Research				1,800						
Engineering Activities	29									
	449	1	3,992	1,800						
FNS										
Women, Infants & Children	19	40	1							
	19	40	1							
TOTAL	163,891	666	4,697	1,914	9,215	27,453	145	24,934	6,826	341,090

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UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL - AUDIT
SUMMARY OF FINDINGS
RELEASED AUDITS
BETWEEN OCTOBER 1, 1981 AND MARCH 31, 1982

Agency/Program	RELEASED MONETARY VALUE IN THOUSANDS REPORTED - BY CATEGORY									
	Collec. Recom.	Collec. Condit.	Program Improve.	Improper Expend.	Direct Loans Collec. Recom.	Direct Loans Collec. Condit.	Guaran. Loans Cancell. Recom.	Guaran. Loans Cancell. Condit.	Program Improve.	Improper Expend.
ASCS										
Grain Reserve	14,948									
Facility Equipment Loans			703		166	19,979	145			
Disaster Payment	36									
	14,984	———	703	———	166	19,979	145	———	———	———
FmHA										
Business & Industrial Loan								540	6,826	26,491
Emergency Loan	268	3			16,944	9,191		5,700		2,168
Farm Operating Loan	128	31	127	47	988	853			3,169	498
Rural Housing Loan	89	78	9,602	209	658	8,079			107,085	1,403
Soil & Water Loan					5					26
	485	112	9,729	256	18,595	18,123	———	6,240	117,080	30,586
FS										
Financial Management			613							
Recreation Management			2,250							
	———	———	2,863	———	———	———	———	———	———	———
FNS										
Women, Infants & Children	30	176								
	30	176	———	———	———	———	———	———	———	———
TOTAL	15,499	288	13,295	256	18,761	38,102	145	6,240	117,080	30,586

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL - AUDIT
SUMMARY OF FINDINGS
CLOSED AUDITS
BETWEEN OCTOBER 1, 1981 AND MARCH 31, 1981

Agency/Program	RELEASED MONETARY VALUE IN THOUSANDS REPORTED - BY CATEGORY									
	Collec. Recom.	Collec. Condit.	Program Improve.	Improper Expend.	Direct Loans Collec. Recom.	Direct Loans Collec. Condit.	Guaran. Loans Cancell. Recom.	Guaran. Loans Cancell. Condit.	Program Improve.	Improper Expend.
AMS										
Fruit & Vegetable Marketing Orders	303									
	303									
ASCS										
Agricultural Conservation	11									
Commodity Loans & Purchase	2,244									
Disaster Payment	2	70								
Grain Reserve	47									
Facility Equipment Loans	6	19			114	5,475				38
	2,310	89			114	5,475				38
FmHA										
Business & Industrial Loan							1,210	2,262		
Emergency Loan	53	52	3,706,946	555	10,671	588		91	348	53
Farm Operating Loan				1	2					
Rural Housing Loan	43	2,563	14	574	154				3,596	1,560
	96	2,615	3,706,960	1,130	10,827	588	1,210	2,353	3,944	1,613
FS										
Personnel & Financial Mgt.	1		501							
Payroll Operations		1								
Procurement & Property Mgt.			565							
Travel	3									
Timber Management	160									
Recreation Management			40							
Land Uses Management			54							
Engineering			10,465							
Fire Management				3						
	164	1	11,625	3						
FNS										
Women, Infants, & Children	3,541	270	1,798							
	3,541	270	1,798							
TOTAL	6,414	2,975	3,720,383	1,133	10,941	6,063	1,210	2,353	3,944	1,651

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APPENDIX 3

Enclosure 5
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Mr. Brown. Have there been any changes made in either the procedures or criteria used in making personnel placements in the OIG?

Mr. Graziano. No changes, other than those required by a change in OPM or USDA regulations, have been made in the procedures or criteria used in making personnel placements in the OIG. Recruitment and placement actions in the OIG have normally been by one of the following means:

(a) Merit Promotion - recruitment, selection and placement of individuals who are government employees for higher level positions than those they currently occupy. This is done in accordance with Office of Personnel Management (OPM) and USDA policies and procedures.

(b) Transfer/Reassignment - selection and placement of government employees for position at the same grade level they currently occupy. This also is done in accordance with OPM and USDA policies and procedures.

(c) Reinstatement - reemployment of a former government employee based on eligibility established by previous government employment in accordance with OPM and USDA policies and procedures.

(d) OPM Certificate of Eligibles - recruitment, selection and placement of individuals outside government referred by OPM from appropriate registers which they (OPM) maintain.

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Mr. Brown. Please describe in detail what criteria and definitions are used in determining when an audit is resolved. Has there been any change in these criteria and definitions in the last two years?

Mr. Graziano. The revision, in November of 1979, of OMB Circular A-73, Audit of Federal Operations and Programs; the issuance of Senate Report 96-829 in June of 1980; followed in July by the enactment of PL 96-304, the Supplemental Appropriations and Rescission Act of 1980, introduced a two-phase system of resolution into audit followup operations. The pertinent passages are:

A-73: (Revised) (Each agency will) "... (3) Make written determinations promptly on all audit findings, and initiate action to assure that these determinations are carried out. Such determinations shall be made within a maximum of six months after issuance of the report. Final resolution should proceed as rapidly as possible." (Underscoring added.)

SR 96-829: "We note that the problem of unresolved audits, as well as other problems associated with auditing, was addressed by OMB when it revised OMB Circular A-73, "Audit of Federal Operations and Programs," on November 27, 1979. The revision established a 6-month limit on the resolution of audits. We wish to encourage agencies to comply with the provisions of the Circular.

By including language in this bill on the resolution of audits, we are not requiring agencies and departments to complete collections within the time period specified. In many instances, that might be very difficult, if not impossible. We do, however, expect managers to make decisions within the allotted time period on whether or not funds are due the Federal Government and to initiate actions to recover such funds."

PL 96-304: SEC. 305. "All unresolved audits currently pending within agencies and departments, for which appropriations are made under this Act, shall be resolved not later than September 30, 1981. Any new audits, involving questioned costs, arising after the enactment of this Act shall be resolved within 6 months."

Based on the wording of A-73 and the Senate Report, it is clearly the intent of PL 96-304 that the 6-months deadline apply to the initial resolution stage, while final resolution is to be achieved as soon as possible thereafter.

To promulgate this requirement, LSDA issued Secretary's Memorandum 1720-1, "Resolution of Audits and Establishment and Collection of Claims Arising from Audits." In it, we are using the terms "resolution" for the first phase, and the term "closure" for the final one.

It defines "resolution" as follows:

> An audit is considered resolved for purposes of meeting the legislatively mandated 6-months deadline, when the Agency and OIG have agreed on the validity of the findings and the need for and nature of corrective action, and the auditee (or State agency) is so informed by a Letter of Determination. In case of monetary findings, this Letter of Determination must contain a request for repayment of the disallowance. Claims will be established in the amounts agreed upon betwen the Program Agency and OIG for all improper expenditures and loans or loan guarantees.

It defines "closure" by saying:

> Audits will be closed by OIG when all findings have been resolved and corrective action has been initiated.

The audit report is an OIG product. Only OIG can close it, and such closure is based on the above criteria. The program agency concerned is notified of OIG's decision to close an audit. OIG's closure of the audit does not relieve the program agency of its responsibility to follow up on corrective actions until they are completed. OIG will periodically check to ensure that this is done on a judgmental basis.

Mr. Brown. What decisions, if any, have been reached regarding moving certain regional offices?

Mr. Graziano. All regional offices will remain where they are. They are presently located in New York, N.Y.; Hyattsville, Maryland; Atlanta, Georgia; Chicago, Illinois; Temple, Texas; Kansas City, Missouri; and San Francisco, California. We have studied the advantages of moving the Hyattsville and Temple offices to Philadelphia and Dallas, respectively. However, there are no current plans to relocate any regional office.

Mr. Brown. I understand a report exists addressing the cost-effectiveness of some moves under review. Could the Subcommittee obtain a copy of the report?

Mr. Graziano. A copy of this report follows.

(The report is held in the subcommittee file.)

Questions on Audit Activities:

Mr. Brown. Please describe the temporal dimension of audit activity. How many months generally elapse between audit work and accomplishments and how does this time period vary by Agency?

Mr. Graziano. There is no hard and fast answer or even a meaningful average figure that could be provided. As a general rule, audit reports are RESOLVED within 6 months of issuance. The time period to implement the agreed-to corrective action will vary widely, depending on the complexity of the remedial measures, the number of recommendations, the level to which they are directed and where the actual work must be performed. This is particularly true when legislative changes are involved. In such cases, implementing instructions must be published before changes are actually effected, all of which are very time-consuming steps.

Mr. Brown. Where does the IG consider these to be the "greatest bang for the buck" in audit activity?

Mr. Graziano. The "greatest bang for the buck" lies in the preventive value of the audits and the correction of the root causes of problems and violations brought to light by in our audits. Much more money is being saved by prevention up front than by recapture after the fact.

As far as the type of audits is concerned, the most money is being saved as well as recaptured by the Special Impact Audits. Special Impacts are nationwide or multi-regional audits dealing with critical issues designed to have an impact on agency or program management (e.g. Grain Embargo, Debt Management).

As to program areas, the food stamp and child nutrition programs of the Food and Nutrition Service and the various loan programs (Farm as well as Business and Industrial Loans) of the Farmers Home Administration have in the past proven very fertile ground for audits, resulting in claims of many millions of dollars.

Amazingly cost-effective are also the less time-consuming reviews of pricing proposals and examinations of contractors claims, with actual savings to the government running from 20-100+ times the costs of the audit work.

Mr. Brown. Please characterize the different categories of audit accomplishments as "hard" or "soft."

Mr. Graziano. We generally use the terms "hard" or "soft" to characterize our findings and our recommendations for monetary recoveries. A "hard" finding is one where we have actual proof of a violation and expect

the program agency to disallow and recapture the wrongful expenditures. We class this as "Collection Recommended." A "soft" finding is one where the auditor cannot find proof of the allowability or propriety of an action or expenditure and must therefore question it. We group questioned costs of this category under "Collection Conditional." As an example for this distinction, let us consider the eligibility of participants in a program which has income limitation criteria. If the auditor finds proof that a participant has income greater than is allowable, he will consider that individual ineligible and recommend collection of the improper expenditures caused by his participation. That is a hard finding. If there is no income information available, however, and we cannot determine whether or not the individual is eligible to participate, we must question his eligibility and attendant costs (soft finding). If the auditee can document the participant's eligibility, the costs will be allowed; if eligibility cannot be established, the costs should be disallowed and a claim established.

Mr. Brown. What sorts of audits are included in the "multi-agency" category?

Mr. Graziano. Our "multi-agency" category consists of audits which cross agency lines, rather than being applicable to only one program or facet of a program. Examples of multi-agency audits would be the Department Debt Management, Cash Management, Consulting Services, Overtime Management, and the other various procurement and property-type audits.

Mr. Brown. In the last three 6-month reporting periods, there has been a pronounced shift in the ratio of "hard" to "soft" accomplishments toward greater "soft" savings. How do you account for this shift?

Mr. Graziano. This is purely coincidental and depends entirely on the type of audits that were issued during the period. The large monetary findings of the large nationwide audits tend to dwarf the monetary values associated with the findings of smaller audits at the program delivery level, and can easily skew statistics. There has been over the years a definite trend toward fewer but more remunerative audits, mainly due to the introduction of the Special Impact Audits and the statistical projection of monetary findings associated with them.

Mr. Brown. Why has the percent of audit hours devoted to FmHA work declined markedly from a peak of 43.4 percent in April 1981 through October 1981 when the accomplishments from audit activity kept rising almost proportional to the level of activity? Was this shift done at the direction of the Secretary as part of his pledge to remain lenient toward financially strapped farmers and rural businesses?

Mr. Graziano. The 43+ percent of our total operational resources devoted to FmHA during the period April 1981 through October 1981 is the exception rather than the rule, and was caused by our nationwide review of FmHA programs during that period. Traditionally, or at least over the last 5 years or so, we had spent the largest part of our resources on coverage of Food and Nutrition Service programs, with FmHA the second largest, averaging well below 30 percent.

Mr. Brown. Have the audit work-years remained relatively stable over the last three fiscal years? Are work-years translated to staff hours and staff days? Why have 43.7% of the October 1981 - March 1982 staff hours been accounted for in 3 months of the next period?

Mr. Graziano. The audit work-years are a direct reflection of our personnel strength which has remained fairly stable for the last three years. Since our audit universe is too large for us to provide total coverage all the time, we have to operate on the basis of priorities established in our planning process. Our plans are based on the number of operational professionals (auditors and specialists) in the current personnel authorization. Management (Regional and Assistant Regional Inspectors General, and National Office) and clerical personnel are excluded. In our estimate of operational resources available, we count 200 eight-hour staff days per operational professional (direct time). The balance is accounted for by training, other administrative activities, and annual as well as sick leave. Actual time expended is, of course, reported on the basis of actual on-board strength rather than authorized ceilings, and is subject to seasonal fluctuations.

Questions on Investigation activities:

Mr. Brown. Please provide for the record definitions of the terms: recoveries, savings, collections, fines, claims, indictments, convictions, suits, and judgments.

Mr. Graziano. Our definitions follow.

Recoveries

The restoration, restitution, or recovery of money or property of known value that was lost through a crime, mismanagement, etc.

Savings

Prevention of dollar value losses to the government. NOTE: Dollar savings can seldom be projected from investigative data.

Collections

The receipt of payment of an indemnity to end a civil transaction, suit, or proceeding.

Fines

The sums of money imposed as a penalty upon a defendant after an administrative hearing, civil suit, or criminal prosecution. (Defendant may be a state, local government, corporation, or an individual.)

Claims Established

Based upon an OIG investigation, the dollar value of indemnities owed to the government, as administratively determined by a USDA agency.

Indictments

The formal charging, by a grand jury, of a person or entity with a criminal felony violation.

Judgments

A judgment is an official decision of a court, or of a duly authorized administrative body, upon the respective rights and claims of the parties to a civil suit or administrative action. Typically such a decision includes an order to one of the parties to perform an obligation, or to pay money.

Suits

Any civil proceeding by the Federal Government against a defendant in a court of justice or administrative hearing for the redress of an injury or the enforcement of a right, whether by law or equity.

Convictions

The results of criminal prosecutions in which the person or entity charged is found guilty of one or more criminal offenses by a court of law. This includes both guilty (and nolo) pleas and trial verdicts of guilty.

Mr. Brown. Please describe the temporal dimension of investigative effort and accomplishments. For cases issued in the period October 1980 through March 1981, when would each category of results be expected to be complete. Estimates by Agency would be useful.

Mr. Graziano. Because we do not track timeframes for each category of results, it is not possible to answer this question in a literal sense. Our procedure is that following the issuance of an investigation report we monitor three general areas in which these categories of results may be achieved: criminal, civil and administrative.

As positive results are obtained in the various categories we enter them in our Management Information System (MIS). Negative results are not entered. When we are satisfied that the results in each of the three general areas have or have not been obtained, as appropriate, we close the case. We never close a case until we are certain that these three general areas have been addressed.

According to our MIS, during the 6-month period October 1980 thru March 1981 we issued 943 reports of investigation. Of the gross, 504 reports were closed without results in these categories. It took 75 days from the date of issuance to the date these cases were closed.

Of the gross, 205 cases had positive findings in one or more of these categories. These cases took 194 days from the date of issuance to the date of closure. The balance or 134 cases are still pending action in one or more of the three general areas. To date these cases average 552 days since the date of issuance.

It is important to note that results and actions from our investigations are contingent on the complexity of the case and the court calendars. If an investigation does not lead to prosecution or civil action the case may be quickly closed. However, if cases lead to criminal or civil processing our experience indicates that we may not get results or close the case for a year or more.

Mr. Brown. Please provide a description of the case or cases associated with the $10 million claim against the SEA in the April 1981 - September 1981 period.

Mr. Graziano. The $10 million claim reported in the SEA category was brought against a surety company which held a $10 million performance bond on a construction contractor hired by the Science and Education Administration (SEA).

In 1976, SEA awarded a $10,049,000 contract to the JOSEPH MORTON CO., INC. (MORTON COMPANY), Brooklyn, NY, for construction of additions to animal disease research facilities at the Plum Island Animal Disease Center (Plum Island), Plum Island, NY. Following award of the contract, MORTON COMPANY issued some 32 claims under contract change orders. Following complaints by SEA officials, the investigation was initiated by our New York Regional Office to determine the validity of MORTON COMPANY change order claims.

As the investigation progressed it became evident that change order cost documentation was complete for only one of the 32 change orders. The investigation was focused on that particular order, which amounted to $580,000 and was the largest of the 32 orders involved.

Three subcontractors testified that they were given offers of future business by MORTON COMPANY officials in exchange for false and inflated cost data for the change order. A fourth said he provided actual figures which were subsequently inflated by MORTON COMPANY President JOSEPH BATTAGLIA. Information was also developed that BATTAGLIA had a bookkeeper destroy records sought by grand jury subpoena during the investigation.

In August 1980 the MORTON COMPANY, BATTAGLIA, and company employee SAMUEL SEMBLE were named in a five count indictment charging the firm and BATTAGLIA with conspiracy and false claims. In March 1981 the defendants were found guilty on all counts. In April 1981 BATTAGLIA was sentenced to 18 months imprisonment and fined $45,000. MORTON COMPANY was fined $45,000. SEMBLE's sentencing was deferred due to his failing health.

Following the criminal convictions, SEABOARD SURETY CO., INC., New York, became liable for payment to the government of the full amount of the $10 million preference bond the firm held on the contract. Litigation involving SEABOARD, MORTON COMPANY, and the U.S. Government continues in the Eastern District of New York and the District of Columbia.

Mr. Brown. Which categories of investigative accomplishments are considered "hard" dollar savings or fines; and which categories are "soft." Please explain the nature of these differences.

Mr. Graziano. Hard dollars are our categories of recoveries, collections, fines, and judgments. Soft dollars are our categories of savings and claims established.

Hard dollars are dollars which are returned to the Treasury of the United States. Soft dollars are usually attained through "cost avoidance" and claims which may be negotiated by the parties concerned.

Mr. Brown. Investigative activity in the various inspection services administered by the USDA often accomplish important non-monetary results such as protecting consumers from unhealthy or adulterated foods, the introduction of diseases, and protecting foreign confidence in agricultural exports from the U.S. The volume "Case Summaries and Indictments," summarizing OIG work as of January 1981, contains numerous startling examples where investigations have halted clearly dangerous and extensive schemes involving bribery and extortion. The relatively meager quantitative results of these investigations appear to have led to de-emphasis on such efforts in favor of food program related efforts where quantifiable results are easier to attain.

How does the OIG take into account non-monetary results of investigative work, and why do AMS, REA and other agencies outside FNS receive so little attention?

Mr. Graziano. The regulatory programs of the Department are not as vulnerable to the same types of program fraud and abuse as the entitlement programs of FNS. Because FNS programs provide a direct benefit to individuals, they are highly susceptible to corruption both in the delivery systems and at the recipient level. Conversely, the regulatory programs provide a variety of mandatory as well as voluntary services to firms and individuals involved in the growing and producing of food to ensure that only wholesome products reach the consuming public. Program participants generally require these services in order to market their products in interstate commerce; therefore, there is a higher level of compliance than with the entitlement programs. The regulatory programs do, however, create an environment conducive to employee integrity problems such as bribery and acceptance of gratuities.

In considering whether to schedule investigations involving employee integrity or matters affecting public health and safety, anticipated results such as indictments, fines, or monetary recoveries, etc., do not figure in the decisionmaking process. In these situations we believe that our investigative presence is necessary in order to retain the public's confidence in the Department's ability to assure standards of quality in the daily food supply. Additionally, these investigations are the most effective means available to clear the wrongly accused, provide documentation to punish the guilty, and to put potential violators on notice that the Department will not tolerate such acts by employees or program participants.

Our vulnerability assessment of the Agricultural Marketing Service (AMS) revealed that the principal programs administered by the agency are generally well managed and we have found little evidence of fraud and abuse. Some of the programs, i.e., the various marketing agreements and orders, were designed primarily to benefit the farmers and producers. Also, most of the statutes and regulations covering AMS programs generally provide for small fines and misdemeanor criminal penalties. Therefore, violations in these areas are usually handled administratively, unless they involve allegations of employee integrity.

In the case of the Rural Electrification Administration (REA), our vulnerability assessment task force concluded during its 1980 review of REA that the agency has historically exercised control over its lending operations. Actual losses of loan funds during the more than 40-year history of the agency have been almost nonexistent. The agency employs a system of control and review which includes field engineers, operations field representatives, and field accountants. As a matter of historical perspective, OIG has never expended a very sizeable portion of its investigative resources on REA investigations.

The following are a few examples of investigations where quantifiable results were not considered in the initial scheduling decisions, although most of these cases have been prosecuted criminally:

a. The alert actions of a USDA food inspector in California in July 1981 led to the discovery that the operator of a meat packing establishment in Australia was substituting horse and kangaroo meat for boneless beef in shipments destined for the United States. To date, a number of Australian Nationals have been indicted in that country and the investigation by the Australian Federal Police continues. Since OIG became involved in the case in August 1981, we have expended many workhours and other resources in investigating the domestic aspects of the case and in assisting the Australian Federal Police. No indictments are expected in this country.

b. A confidential informant provided information that a federally inspected meat packing firm in Cincinnati, Ohio, was conducting after-hours clandestine slaughter of "cancer eye" cattle. Our investigation led to the arrest and conviction of the firm's vice president and four other persons; however, the meat and poultry inspection program was more favorably impacted by the press coverage this incident received by the local news media.

c. A Florida importer of exotic birds was investigated following allegations that he was removing the birds from a USDA approved quarantine station owned by him, prior to the expiration of a

quarantine to check the birds for Velogenic Newcastle Disease. It was further alleged that this individual was commingling the quarantined birds with those that had already cleared quarantine. A diagnosis of Newcastle disease at the quarantine station by the Animal and Plant Health Inspection Service (APHIS) necessitated the depopulation of all the birds in order to prevent the spread of the disease to other states and possible outbreaks of the disease in domestic poultry. As a result of this depopulation the Department was required to pay indemnity costs of $280,941. The importer, his wife and son and two employees were subsequently convicted for conspiracy. However, this investigation was initiated primarily as an effort to protect the public.

d. In conjunction with a Federal Grand Jury, our New York office is currently investigating the alleged importation of cattle into the United States from Canada under circumstances which circumvented testing for Brucellosis. OIG was alerted by a news story to the effect that a Patterson, New York, dealer was the subject of administrative proceedings by the State of New York for bringing hundreds of cattle in from Canada and substituting blood samples from pretested animals for use on export certifications covering hundreds of cattle which were never tested. As a result of the investigation by New York State, this individual's Domestic Animal Health Permit was suspended for 2 years and he was fined $50,000. A hearing was initiated to permanently revoke the permit.

e. OIG initiated an investigation in Northfield, New Hampshire, where it was alleged that the operator of an egg processing firm was using a federal egg grading stamp without proper authority. Although this was a minor investigation in terms of adverse impact on the program or anticipated results, this case was conducted in the public interest. The individual concerned admitted using the stamp illegally and surrendered it to our investigating agent. No administrative action was taken against the firm by the Department, but the investigation revealed possible improper handling of the stamp on the part of USDA-licensed State employees. Appropriate action is being taken to correct this discrepancy.

Mr. Brown. Has the OIG had an unusually high level of turnovers among the Deputy Assistant IG's and Division Heads?

Mr. Graziano. Since January 1981, the following represents the turnover among the Deputy Assistant IG's and Division Heads:

1 Assistant Inspector General retired
1 Assistant Inspector General transferred to accept a promotion
1 Deputy Assistant Inspector General transferred
1 Division Director retired
1 Division Director transferred

Considering the number of managerial positions at this level in OIG, these five positions represent a high percentage. However, this type of turnover is not unusual or unexpected given, (1) the age and length of service of those who retired; and (2) the fact that all those who transferred left to work for the former USDA IG. We are well along in the process of staffing these key positions, as indicated in the breakdown in Enclosure 4.

Mr. Brown. What percent of the USDA budget:
--is being illegally diverted?
--is being wasted?
--is inefficiently managed?

Mr. Graziano. It is not possible to answer the first part of this question quantitatively with any degree of accuracy.

Funds "illegally diverted" would fall under our definition of fraud. Whenever ongoing audits reveal the potential of a fraudulent situation, or we have an agency request or whistleblower complaint along these lines, we follow up on it, coordinating audit and investigative resources and activities until it is clarified whether or not there is actual fraud. If there is, we will offer the case to the Justice Department (U.S. Attorney) or State for prosecution. If prosecution is declined, we will refer it to the agency concerned for administrative action.

Our statistics, as published in the Semiannual IG Reports to Congress, show the number of fraud cases handled by OIG and the results in terms of number of indictments and convictions obtained, as well as dollar claims, fines, judgments, liquidated damages and other sanctions. They represent the detected cases of fraud. We cannot, however, make any statements as to the total extent of fraud or even speculate on the number and dollar volume of undetected incidents.

A similar situation pertains to waste and mismanagement, although we are in a slightly better position here. Waste and mismanagement are generally disclosed in audits. Many of our major audits are now based on statistical sampling, which allows program or nationwide projection of findings. These projections will give program management a picture of the impact certain violations of law or regulations, deviations from agreements or procedures, or other shortcomings in the operations revealed by the audit will or can have on the program as a whole. Savings and cost avoidances achieved by the establishment of new or enforcement of existing controls, or by the implementation of other corrective actions can be quantified and expressed in dollar figures. However, since we do not audit every program and every facet of each operation every year, we cannot estimate the extent of actual total losses due to abuse, waste, and mismanagement, much less express them in terms of a percentage of the USDA budget.

Mr. Brown. What is the basis for your estimates?

Mr. Graziano. Our estimates for individual audits are based on our findings in the sample examined. If we have used statistical sampling, these findings can be projected scientifically, and these projections will stand up in court. If random sampling is used, logical projections of the findings can be made to show the potential impact of the shortcomings noted, but they will generally not be acceptable as a basis for claims and recapture of funds.

Mr. Brown. What is the basis for priorities?

Mr. Graziano. Our priorities are based, in general, on our policy of providing the highest coverage for the programs which (1) are most vulnerable to fraud and abuse; (2) pose the greatest threat to employee integrity; and (3) promise the greatest return in terms of prevention of large dollar losses.

Our work plan reflects the reconciliation of resources available with the resource requirements of the efforts proposed by our Regional Inspectors General as approved by the National Office. These proposals are based on our perceptions of the most urgently needed coverage, gained by experience and close coordination with the program agencies and their expressed desires. The work plan further takes into account special requests by Congress, the Administration, and the Secretary.

Mr. Brown. What definitions do you use?

Mr. Graziano. Our usage of the terms "Fraud" and "Program Abuse" is generally guided by the definitions given in House Report 94-786 (DHEW - Prevention and Detection of Fraud and Program Abuse) of Jan. 26, 1976. They read as follows:

(1) Fraud can be defined briefly as the obtaining of something of value through intentional perversion of the truth. (GAO and dictionary definitions use slightly different wordings but the meaning is essentially the same. The key word is "intentional.")

(2) The term Program Abuse covers a wide variety of program violations and improper practices not involving actual fraud.

We use the terms "Waste" and "Mismanagement" in their generally accepted dictionary sense.

Mr. Brown. And how do these estimates affect your priorities?

Mr. Graziano. Some of the major considerations in setting our priorities is the vulnerability of our various programs to fraud, abuse, and mismanagement, and the likely dollar impact of our activities in terms of loss prevention or recapture of improper expenditures.

Mr. Brown. Some people contend that the February 10, 1981 report by Robert Magee Acting Inspector General, on "Vulnerability of USDA Programs to Fraud, Waste and Abuse" has been largely ignored by the current Inspector General. Why have a number of the recommendations in that report not been accepted?

Mr. Graziano. We do not agree with this contention. In April 1979, OIG completed an assessment of the vulnerability of the programs and operations of the Department to fraud, waste and abuse.

Historically, we have applied our resources in those areas considered to be most vulnerable to fraud, abuse and waste. Specifically, the programs of the Food and Nutrition Service, the Farmers Home Administration and the Agricultural Stabilization and Conservation Service/Commodity Credit Corporation have been allocated 70 percent or more of OIG staff time. OIG possesses a rather comprehensive knowledge of those agencies' programs and the related vulnerabilities.

In 1980, we performed an update of this assessment, with particular emphasis on four major agencies that have received comparatively less audit and investigative attention. These four are: the Forest Service, Rural Electrification Administration, Science and Education Administration and the Soil Conservation Service.

The study results are the perceptions of areas where problems could exist, or where control systems, as described by management, appeared to be inadequate, rather than the definite findings and recommendations which would have resulted from an audit. As a matter of fact, there are no explicit recommendations in the report, although it is clear that the enumeration and description of the various program areas assessed as potentially vulnerable to fraud, waste and abuse invite greater program management as well as OIG attention to these weaknesses.

Audit and investigative coverage of these areas has to compete with our other requirements, and has been given due consideration and a fair share in our work planning process.

During the last 18 months, we have undertaken Forest Service audits of Scaling, Timber Sale Road Construction, Concessionaire Fees, and ADP activities (FORPLAN), among others. We have planned two surveys in Science and Education (Agricultural Research) for FY 1983 and are continuing our audits of the 1890 Land Grant Institutions on a fairly regular basis (Cooperative Research/Extension Service). In the Soil Conservation area, we have completed the Yazoo-Little Tallahatchie Flood Prevention Project audit, and have scheduled several audits for FY 1983 in Watershed Planning, Soil Surveys, and Flood Prevention. And finally, we have started a major audit of the REA Electrification Program, where we intend to review the dissemination and use of REA loan funds.

Mr. Brown. How well has the OIG been able to work with the U.S. Attorney General, and have their priorities been consistent with USDA's?

Mr. Graziano. I believe that we enjoy an outstanding working relationship with the U.S. Department of Justice (DOJ), both at the Washington level and with the U.S. Attorneys throughout the country. Evidence of this close working relationship may be inferred from the fact that our criminal indictments have steadily increased over the years. In FY 1978, for example, we obtained approximately 300 indictments and in FY 1981 we obtained 1051. As recently as May 7, 1982, the Assistant Attorney General, Criminal Division, in an internal DOJ publication reiterated a previously stated DOJ position that "the investigation and prosecution of fraud and corruption in federal programs is a major priority of the Department of Justice."

APPENDIX 4

United States Department of Agriculture | Office of Inspector General | Washington, D.C. 20250

Date: February 10, 1981

Subject: Vulnerability of USDA Programs to Fraud, Waste and Abuse

To: The Secretary
Deputy Secretary
Under Secretary
Assistant Secretaries
Director, Economics, Policy Analysis and Budget
General Counsel

From: Robert E. Magee, Acting Inspector General

In April 1979, OIG did an assessment of the vulnerability of the programs and operations of the Department to fraud, waste and abuse.

We recently completed an update of that assessment. A copy is enclosed for your information and use. The purpose of these assessments is twofold: (1) to help me and my staff decide where our audit and investigative resources can be most effectively used, and (2) to inform you about those programs and activities which our review indicated may be vulnerable to fraud, abuse and waste.

We will be glad to meet with you and discuss the contents of the updated assessment.

BACKGROUND

Since, for the most part, the nature of the Department's programs and control systems remain relatively constant from year to year, I concluded it would not be necessary, nor an appropriate use of OIG resources, to once again conduct a study of the magnitude of that done last year. I did feel, however, that expanded coverage and review of selected agencies, where our audit and investigative experience has been limited, would be useful. Historically we have applied our resources in those areas considered to be most vulnerable to fraud, abuse, and waste. Specifically, the programs of the Food and Nutrition Service, the Farmers Home Administration and the Agricultural Stabilization and Conservation Service/Commodity Credit Corporation have been allocated about 70 percent of OIG staff time. OIG possesses a rather comprehensive knowledge of those agencies' programs and the related vulnerabilities.

In this analysis, we decided to concentrate our assessment effort on four major agencies that have received comparatively less audit and investigative attention. These four are: the Forest Service, Rural Electrification Administration, Science and Education Administration and the Soil

Conservation Service. Task forces composed of OIG and agency personnel were formed to conduct interviews with agency officials, compile program data, review and analyze management control systems, review previous OIG audit and investigative reports and reports of the General Accounting Office, and finally to identify those areas most vulnerable to fraud, waste and abuse. It is important to note that little in the way of testing was performed. Consequently, the study results are the perceptions of areas where problems could exist, or where control systems, as described by management, appeared to be inadequate. Obviously, problems may exist in controlled areas as well, if systems are not functioning as described.

The 1980 OIG vulnerability assessment, therefore, leads off with the results of the examination of the four agencies noted above. The assessment of the remaining Department programs is an update. Current budgetary information has been inserted, agency control system descriptions amended as appropriate, and audit and investigative findings of the past year incorporated.

SUMMARY RESULTS

Forest Service

Unlike the other three agencies focused upon in our expanded coverage, OIG has had considerable audit and investigative experience with programs of the Forest Service. However, due to the large number of programs, substantial resources, complex operations and geographical scope of the Forest Service, our coverage has not been as great as OIG or the agency would like. Although the task force felt that the Forest Service is generally well managed, the size of operations, coupled with the fact that the agency has receipts (over $1 billion in FY 1979), as well as substantial expenditures, contribute to high vulnerability to fraud, waste and abuse in certain areas. The most significant of these is the timber sale process. Timber sales operations, from appraisals to log accountability, are both intricate in nature and difficult to monitor.

Other areas of concern include (1) use of resources in fighting forest fires, (2) control of prescribed burns, (3) Forest Service-owned aircraft, (4) automated data processing activities, and (5) certain aspects of administrative activities including controls over nonexpendable property, overtime and procurement contracting.

OIG intends to increase OIG attention in areas of substantial vulnerability as well as to review and examine the operations of individual operating units.

Rural Electrification Administration

The insuring, guaranteeing, and making of loans is a mission that is normally closely associated with high vulnerability. The task force concluded that REA has historically exercised control over its lending operations. Actual losses of loan funds during the more than 40 year history of REA have been

almost non-existent. Nonetheless, the task force's current review indicated that (1) some telephone borrowers' may be obtaining loans solely for the purpose of justifying rate increases to their State rate setting bodies, at the consumers' expense, (2) controls over some aspects of borrowers contracting procedures need strengthening (3) borrowers could manipulate their general fund levels in order to qualify for loans, or to draw against existing loans, (4) there is opportunity for waste and abuse of loan funds made available for incidental facilities related to [illegible] generating plant loans, and (5) REA's monitoring of construction to control quality and cost may be weak, particularly for generating plants, and may grow weaker still because of large increases in program levels without increases in staff. OIG plans to provide audit coverage of some of these areas in FY 1981.

Science and Education Administration

The assessment team did not identify many areas with SEA that were highly vulnerable. However, the research funds transferred to universities and other recipients are not closely controlled. As a result, there is little assurance that federal funds are expended in accordance with the purposes intended. This situation is primarily due to the legislatively mandated structure of the transfer process.

Soil Conservation Service

The task force concluded that SCS is relatively less vulnerable to fraud, abuse and waste. However, a fledgling program, the Rural Abandoned Mine Program, appeared to have significant vulnerability potential, if anticipated funding increases materialize. OIG will monitor the growth and operation of this program closely.

Other potentially vulnerable areas are (1) the development of an integrated agency information system, now in process, and (2) the impact on cost-benefit analyses of proposed changes in the regulations covering planning for water and related resources.

We will continue to update the vulnerability assessments from time to time and may select other agencies for more intensive review in future years.

APPENDIX 5

INSPECTOR GENERAL ACT OF 1978

Pub. L. 95-452, Oct. 12, 1978, 92 Stat. 1101, as amended by Pub. L. 96-88, title V, § 508(n), Oct. 17, 1979, 93 Stat. 694

§ 1. Short title

This Act be cited as the "Inspector General Act of 1978".

ACT REFERRED TO IN OTHER SECTIONS

The Inspector General Act of 1978 is referred to in title 20 sections 3412, 3422.

§ 2. Purpose and establishment of Offices of Inspector General; departments and agencies involved

In order to create independent and objective units—

(1) to conduct and supervise audits and investigations relating to programs and operations of the Department of Agriculture, the Department of Commerce, the Department of Education, the Department of Housing and Urban Development, the Department of the Interior, the Department of Labor, the Department of Transportation, the Community Services Administration, the Environmental Protection Agency, the General Services Administration, the National Aeronautics and Space Administration, the Small Business Administration, and the Veterans' Administration;

(2) to provide leadership and coordination and recommend policies for activities designed (A) to promote economy, efficiency, and effectiveness in the administration of, and (B) to prevent and detect fraud and abuse in, such programs and operations; and

(3) to provide a means for keeping the head of the establishment and the Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress of corrective action;

thereby is hereby established in each of such establishments an office of Inspector General.

(As amended Pub. L. 96-88, title V, § 508(n)(1), Oct. 17, 1979, 93 Stat. 694.)

AMENDMENTS

1979—Par. (1). Pub. L. 96-44 inserted "the Department of Education," following "Commerce,".

EFFECTIVE DATE OF 1979 AMENDMENT

Amendment by Pub. L. 96-88, effective 180 days after the first Secretary takes office, or on any earlier date on or after Oct. 1, 1979, as the President prescribes and publishes in the Federal Register, with specified exceptions, see section 601 of Pub. L. 96-88, set out as an Effective Date note under section 3401 of Title 20, Education.

§ 3. Appointment of Inspector General; supervision; removal; political activities; appointment of Assistant Inspector General for Auditing and Assistant Inspector General for Investigations

(a) There shall be at the head of each Office an Inspector General who shall be appointed by the President, by and with the advice and consent of the Senate, without regard to political affiliation and solely on the basis of integrity and demonstrated ability in accounting, auditing, financial analysis, law, management analysis, public administration, or investigations. Each Inspector General shall report to and be under the general supervision of the head of the establishment involved or, to the extent such authority is delegated, the officer next in rank below such head, but shall not report to, or be subject to supervision by, any other officer of such establishment. Neither the head of the establishment nor the officer next in rank below such head shall prevent or prohibit the Inspector General from initiating, carrying out, or completing any audit or investigation, or from issuing any subpena during the course of any audit or investigation.

(b) An Inspector General may be removed from office by the President. The President shall communicate the reasons for any such removal to both Houses of Congress.

(c) For the purposes of section 7324 of title 5, United States Code, no Inspector General shall be considered to be an employee who determines policies to be pursued by the United States in the nationwide administration of Federal laws.

(d) Each Inspector General shall, in accordance with applicable laws and regulations governing the civil service—

(1) appoint an Assistant Inspector General for Auditing who shall have the responsibility for supervising the performance of auditing activities relating to programs and operations of the establishment, and

(2) appoint an Assistant Inspector General for Investigations who shall have the responsibility for supervising the performance of investigative activities relating to such programs and operations.

§ 4. Duties and responsibilities; report of criminal violations to Attorney General

(a) It shall be the duty and responsibility of each Inspector General, with respect to the es-

tablishment within which his Office is established—

(1) to provide policy direction for and to conduct, supervise, and coordinate audits and investigations relating to the programs and operations of such establishment;

(2) to review existing and proposed legislation and regulations relating to programs and operations of such establishment and to make recommendations in the semiannual reports required by section 5(a) concerning the impact of such legislation or regulations on the economy and efficiency in the administration of programs and operations administered or financed by such establishment or the prevention and detection of fraud and abuse in such programs and operations;

(3) to recommend policies for, and to conduct, supervise, or coordinate other activities carried out or financed by such establishment for the purpose of promoting economy and efficiency in the administration of, or preventing and detecting fraud and abuse in, its programs and operations;

(4) to recommend policies for, and to conduct, supervise, or coordinate relationships between such establishment and other Federal agencies, State and local governmental agencies, and nongovernmental entities with respect to (A) all matters relating to the promotion of economy and efficiency in the administration of, or the prevention and detection of fraud and abuse in, programs and operations administered or financed by such establishment, or (B) the identification and prosecution of participants in such fraud or abuse; and

(5) to keep the head of such establishment and the Congress fully and currently informed, by means of the reports required by section 5 and otherwise, concerning fraud and other serious problems, abuses, and deficiencies relating to the administration of programs and operations administered or financed by such establishment, to recommend corrective action concerning such problems, abuses, and deficiencies, and to report on the progress made in implementing such corrective action.

(b) In carrying out the responsibilities specified in subsection (a)(1), each Inspector General shall—

(1) comply with standards established by the Comptroller General of the United States for audits of Federal establishments, organizations, programs, activities, and functions;

(2) establish guidelines for determining when it shall be appropriate to use non-Federal auditors; and

(3) take appropriate steps to assure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General as described in paragraph (1).

(c) In carrying out the duties and responsibilities established under this Act, each Inspector General shall give particular regard to the activities of the Comptroller General of the United States with a view toward avoiding duplication and insuring effective coordination and cooperation.

(d) In carrying out the duties and responsibilities established under this Act, each Inspector General shall report expeditiously to the Attorney General whenever the Inspector General has reasonable grounds to believe there has been a violation of Federal criminal law.

§ 5. Semiannual reports; transmittal to Congress; availability to public; immediate report on serious or flagrant problems

(a) Each Inspector General shall, not later than April 30 and October 31 of each year, prepare semiannual reports summarizing the activities of the Office during the immediately preceding six-month periods ending March 31 and September 30. Such reports shall include, but need not be limited to—

(1) a description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of such establishment disclosed by such activities during the reporting period;

(2) a description of the recommendations for corrective action made by the Office during the reporting period with respect to significant problems, abuses, or deficiencies identified pursuant to paragraph (1);

(3) an identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed;

(4) a summary of matters referred to prosecutive authorities and the prosecutions and convictions which have resulted;

(5) a summary of each report made to the head of the establishment under section 6(b)(2) during the reporting period; and

(6) a listing of each audit report completed by the Office during the reporting period.

(b) Semiannual reports of each Inspector General shall be furnished to the head of the establishment involved not later than April 30 and October 31 of each year and shall be transmitted by such head to the appropriate committees or subcommittees of the Congress within thirty days after receipt of the report, together with a report by the head of the establishment containing any comments such head deems appropriate.

(c) Within sixty days of the transmission of the semiannual reports of each Inspector General to the Congress, the head of each establishment shall make copies of such report available to the public upon request and at a reasonable cost.

(d) Each Inspector General shall report immediately to the head of the establishment involved whenever the Inspector General becomes aware of particularly serious or flagrant problems, abuses, or deficiencies relating to the administration of programs and operations of such establishment. The head of the establishment shall transmit any such report to the appropriate committees or subcommittees of Congress within seven calendar days, together with a report by the head of the establishment containing any comments such head deems appropriate.

§6. Authority of Inspector General; information and assistance from Federal agencies; unreasonable refusal; office space and equipment

(a) In addition to the authority otherwise provided by this Act, each Inspector General, in carrying out the provisions of this Act, is authorized—

(1) to have access to all records, reports, audits, reviews, documents, papers, recommendations, or other material available to the applicable establishment which relate to programs and operations with respect to which that Inspector General has responsibilities under this Act;

(2) to make such investigations and reports relating to the administration of the programs and operations of the applicable establishment as are, in the judgment of the Inspector General, necessary or desirable;

(3) to request such information or assistance as may be necessary for carrying out the duties and responsibilities provided by this Act from any Federal, State, or local governmental agency or unit thereof;

(4) to require by subpena the production of all information, documents, reports, answers, records, accounts, papers, and other data and documentary evidence necessary in the performance of the functions assigned by this Act, which subpena, in the case of contumacy or refusal to obey, shall be enforceable by order of any appropriate United States district court: *Provided*, That procedures other than subpenas shall be used by the Inspector General to obtain documents and information from Federal agencies;

(5) to have direct and prompt access to the head of the establishment involved when necessary for any purpose pertaining to the performance of functions and responsibilities under this Act;

(6) to select, appoint, and employ such officers and employees as may be necessary for carrying out the functions, powers, and duties of the Office subject to the provisions of title 5, United States Code, governing appointments in the competitive service, and the provisions of chapter 51 and subchapter III of chapter 53 of such title relating to classification and General Schedule pay rates;

(7) to obtain services as authorized by section 3109 of title 5, United States Code, at daily rates not to exceed the equivalent rate prescribed for grade GS-18 of the General Schedule by section 5332 of title 5, United States Code; and

(8) to the extent and in such amounts as may be provided in advance by appropriations Acts, to enter into contracts and other arrangements for audits, studies, analyses, and other services with public agencies and with private persons, and to make such payments as may be necessary to carry out the provisions of this Act.

(b)(1) Upon request of an Inspector General for information or assistance under subsection (a)(3), the head of any Federal agency involved shall, insofar as is practicable and not in contravention of any existing statutory restriction or regulation of the Federal agency from which the information is requested, furnish to such Inspector General, or to an authorized designee, such information or assistance.

(2) Whenever information or assistance requested under subsection (a)(1) or (a)(3) is, in the judgment of an Inspector General, unreasonably refused or not provided, the Inspector General shall report the circumstances to the head of the establishment involved without delay.

(c) Each head of an establishment shall provide the Office within such establishment with appropriate and adequate office space at central and field office locations of such establishment, together with such equipment, office supplies, and communications facilities and services as may be necessary for the operation of such offices, and shall provide necessary maintenance services for such offices and the equipment and facilities located therein.

§7. Complaints by employees; disclosure of identity; reprisals

(a) The Inspector General may receive and investigate complaints or information from an employee of the establishment concerning the possible existence of an activity constituting a violation of law, rules, or regulations, or mismanagement, gross waste of funds, abuse of authority or a substantial and specific danger to the public health and safety.

(b) The Inspector General shall not, after receipt of a complaint or information from an employee, disclose the identity of the employee without the consent of the employee, unless the Inspector General determines such disclosure is unavoidable during the course of the investigation.

(c) Any employee who has authority to take, direct others to take, recommend, or approve any personnel action, shall not, with respect to such authority, take or threaten to take any action against any employee as a reprisal for making a complaint or disclosing information to an Inspector General, unless the complaint was made or the information disclosed with the knowledge that it was false or with willful disregard for its truth or falsity.

§8. Semiannual reports of Secretary of Defense on audit, investigative, and inspection units of Department of Defense; availability to public; exclusion of national security material; delegation of duty; submittal of proposed legislation; establishment of task force to study operation of audit, investigative, and inspection units; membership; comprehensive report; final report

(a)(1) The Secretary of Defense shall submit to the Congress semiannual reports during the period ending October 1, 1982, summarizing the activities of the audit, investigative and inspection units of the Department of Defense. Such reports shall be submitted within sixty days of the close of the reporting periods ending March 31 and September 30 and shall include, but not be limited to—

(A) a description of significant instances or patterns of fraud, waste, or abuse disclosed by the audit, investigative, and inspection activities during the reporting period and a descrip-

tion of recommendations for corrective action made with respect to such instances or patterns;

(B) a summary of matters referred for prosecution and of the results of such prosecutions; and

(C) a statistical summary, by categories of subject matter, of audit and inspection reports completed during the reporting period.

(2) Within sixty days of the transmission of the semiannual reports, the Secretary shall make copies of such reports available to the public upon request and at a reasonable cost.

(3) If the Secretary concludes that compliance with the reporting requirements in paragraphs (1) and (2) of this subsection would require inclusion of material that may constitute a threat to the national security or disclose an intelligence function or activity, the Secretary may exclude such material from the report. If material is excluded from a report under this subsection, the Secretary shall provide the chairmen and ranking minority members of the appropriate committees or subcommittees with a general description of the nature of the material excluded.

(4) The Secretary may delegate his responsibilities under paragraphs (1) through (3): *Provided*, That the delegation be to an official within the Office of the Secretary of Defense who is a Presidential appointee confirmed by the Senate. In preparing the reports, the designee of the Secretary shall have the same access to information held by the audit, investigative or inspection units as the Secretary would.

(5) In order to effectuate the purposes of this Act with respect to the Department of Defense, the Secretary of Defense shall submit, not later than March 31, 1981, proposed legislation to establish appropriate reporting procedures, for the period after October 1, 1982, concerning the audit, investigative and inspection activities of the Department of Defense.

(b)(1) The Secretary of Defense shall establish a task force to study the operation of the audit, investigative, and inspection components in the Department of Defense which engage in the prevention and detection of fraud, waste, and abuse. The Secretary shall appoint the Director and other members of the task force: *Provided*, That the Director shall be a person who is not an employee of the Department of Defense. The Director shall have the authority to hire such additional staff as is necessary to complete the study.

(2) The Director and members of the task force and, upon the request of a member or the Director, the staff of the task force shall have access to all information relevant to the study and held by the audit, investigative, and inspection components in the Department of Defense including reports prepared by such components: *Provided*, That—

(A) such information or reports may be withheld if a component head determines that disclosure would compromise an active investigation of wrong-doing;

(B) the Inspectors General of the Military Departments may delete the names of individuals in a report prepared by them if the Inspector General determines that the inclusion of the names would affect the ability of the Inspector General to obtain information in future investigations and inspections; and

(C) no classified information shall be released to the task force unless the members and staff who will have access to the classified information have the appropriate clearances.

Upon the request of the Director, the Secretary of Defense and the Secretaries of the Military Departments shall assure that the task force has access to information as provided in this subsection.

(3) The task force shall prepare a comprehensive report that shall include, but not be limited to—

(A) a description of the functions of the audit, investigative and inspection components in the Department of Defense and the extent to which such components cooperate in their efforts to detect and prevent fraud, waste and abuse;

(B) an evaluation of whether such components are sufficiently independent to carry out their responsibilities;

(C) the relationship between such components and the Criminal Division of the Department of Justice; and

(D) recommendations for change in organization or functions that may be necessary to improve the effectiveness of such components.

(4) The task force shall submit its final report to the Secretary of Defense and the Director of the Office of Management and Budget. The Secretary and the Director of the Office of Management and Budget may, in the form of addenda to the report, provide any additional information that they deem necessary. The Secretary shall submit the report and the addenda to the Congress not later than April 1, 1980. The task force shall be disestablished sixty days following such submission.

(5) Any matter concerning the intelligence or counterintelligence activities of the Department of Defense and assigned by regulation to the Inspector General for Defense Intelligence shall be excluded from the study of the task force.

§ 9. Transfer of functions

(a) There shall be transferred—

(1) to the Office of Inspector General—

(A) of the Department of Agriculture, the offices of that department referred to as the "Office of Investigation" and the "Office of Audit";

(B) of the Department of Commerce, the offices of that department referred to as the "Office of Audits" and the "Investigations and Inspections Staff" and that portion of the office referred to as the "Office of Investigations and Security" which has responsibility for investigation of alleged criminal violations and program abuse;

(C) of the Department of Education, all functions of the Inspector General of Health, Education, and Welfare or of the Office of Inspector General of Health, Education, and Welfare relating to func-

tions transferred by section 301 of the Department of Education Organization Act [20 U.S.C. 3441];

(D) of the Department of Housing and Urban Development, the office of that department referred to as the "Office of Inspector General";

(E) of the Department of the Interior, the office of that department referred to as the "Office of Audit and Investigation";

(F) of the Department of Labor, the office of that department referred to as the "Office of Special Investigations";

(G) of the Department of Transportation, the offices of that department referred to as the "Office of Investigations and Security" and the "Office of Audit" of the Department, the "Offices of Investigations and Security, Federal Aviation Administration", and "External Audit Divisions, Federal Aviation Administration", the "Investigations Division and the External Audit Division of the Office of Program Review and Investigation, Federal Highway Administration", and the "Office of Program Audits, Urban Mass Transportation Administration";

(H) of the Community Services Administration, the offices of that agency referred to as the "Inspections Division", the "External Audit Division", and the "Internal Audit Division";

(I) of the Environmental Protection Agency, the offices of that agency referred to as the "Office of Audit" and the "Security and Inspection Division";

(J) of the General Services Administration, the offices of that agency referred to as the "Office of Audits" and the "Office of Investigations";

(K) of the National Aeronautics and Space Administration, the offices of that agency referred to as the "Management Audit Office" and the "Office of Inspections and Security";

(L) of the Small Business Administration, the office of that agency referred to as the "Office of Audits and Investigations"; and

(M) of the Veterans' Administration, the offices of that agency referred to as the "Office of Audits" and the "Office of Investigation."; and

(2) such other offices or agencies, or functions, powers, or duties thereof, as the head of the establishment involved may determine are properly related to the functions of the Office and would, if so transferred, further the purposes of this Act,

except that there shall not be transferred to an Inspector General under paragraph (2) program operating responsibilities.

(b) The personnel, assets, liabilities, contracts, property, records, and unexpended balances of appropriations, authorizations, allocations, and other funds employed, held, used, arising from, available or to be made available, of any office or agency the functions, powers, and duties of which are transferred under subsection (a) are hereby transferred to the applicable Office of Inspector General.

(c) Personnel transferred pursuant to subsection (b) shall be transferred in accordance with applicable laws and regulations relating to the transfer of functions except that the classification and compensation of such personnel shall not be reduced for one year after such transfer.

(d) In any case where all the functions, powers, and duties of any office or agency are transferred pursuant to this subsection, such office or agency shall lapse. Any person who, on the effective date of this Act [Oct. 1, 1978], held a position compensated in accordance with the General Schedule, and who, without a break in service, is appointed in an Office of Inspector General to a position having duties comparable to those performed immediately preceding such appointment shall continue to be compensated in the new position at not less than the rate provided for the previous position, for the duration of service in the new position.

(As amended Pub. L. 96-88, title V, § 508(n)(2), Oct. 17, 1979, 93 Stat. 694.)

AMENDMENTS

1979—Subsec. (a)(1). Pub. L. 96-88 redesignated subpars. (C) to (L) as (D) to (M) and added a new subpar. (C).

EFFECTIVE DATE OF 1979 AMENDMENT

Amendment by Pub. L. 96-88, effective 180 days after the first Secretary takes office, or on any earlier date on or after Oct. 1, 1979, as the President prescribes and publishes in the Federal Register, with specified exceptions, see section 601 of Pub. L. 96-88, set out as an Effective Date note under section 3401 of Title 20, Education.

§ 10. Conforming and technical amendments

[Section amended sections 5315 and 5316 of Title 5, Government Organization and Employees, and section 3522 of Title 42, The Public Health and Welfare, which amendments have been executed to text.]

§ 11. Definitions

As used in this Act—

(1) the term "head of the establishment" means the Secretary of Agriculture, Commerce, Education, Housing and Urban Development, the Interior, Labor, or Transportation or the Administrator of Community Services, Environmental Protection, General Services, National Aeronautics and Space, Small Business, or Veterans' Affairs, as the case may be;

(2) the term "establishment" means the Department of Agriculture, Commerce, Education, Housing and Urban Development, the Interior, Labor, or Transportation or the Community Services Administration, the Environmental Protection Agency, the General Services Administration, the National Aeronautics and Space Administration, the Small Business Administration, or the Veterans' Administration, as the case may be;

(3) the term "Inspector General" means the Inspector General of an establishment;

(4) the term "Office" means the Office of Inspector General of an establishment; and

(5) the term "Federal agency" means an agency as defined in section 552(e) of title 5

(including an establishment as defined in paragraph (2)), United States Code, but shall not be construed to include the General Accounting Office.

(As amended Pub. L. 96-88, title V, § 509(n)(3), (4), Oct. 17, 1979, 93 Stat. 695.)

AMENDMENTS

1979—Par. (1). Pub. L. 96-88, § 508(n)(3), inserted "Education," following "Commerce,".

Par. (2). Pub. L. 96-88, § 508(n)(4) inserted "Education," following "Commerce,".

EFFECTIVE DATE OF 1979 AMENDMENT

Amendment by Pub. L. 96-88, effective 180 days after the first Secretary takes office, or on any earlier date on or after Oct. 1, 1979, as the President prescribes and publishes in the Federal Register, with specified exceptions, see section 601 of Pub. L. 96-88, set out as an Effective Date note under section 3401 of Title 20, Education.

§ 12. Effective date

The provisions of this Act and the amendments made by this Act [see section 10 of this Act] shall take effect October 1, 1978.

Regs. adopted May, 14, 1980

tions; prepare patent applications and prosecute the same before the Patent Office.

(h) Represent the Department in formal rulemaking and adjudicatory proceedings held in connection with the administration of the Department's activities, and decide whether initial decisions of the administrative law judges shall be appealed by the Department to the Secretary.

(i) Represent the Department in connection with legal issues that arise in its relations with the Congress, the General Accounting Office, or other agencies of the Government.

(j) Represent the Department in proceedings before the Interstate Commerce Commission involving freight rates on farm commodities, and in appeals from decisions of the Commission to the courts.

(k) In civil actions arising out of the activities of the Department, present the Department's case to the Attorney General and U.S. attorneys and, upon request of the Department of Justice assist in the preparation and trial of such cases.

(l) Review cases having criminal aspects and refer them to the Department of Justice.

(m) Act as liaison between the Department and the Department of Justice.

(n) Perform the following legal services:

(1) Render legal opinions on questions arising in the conduct of the Department's activities.

(2) Prepare or review regulations.

(3) Draft proposed legislation.

(4) Prepare or review contracts, mortgages, deeds, leases, and other documents.

(5) Examine titles to land to be acquired or accepted as security for loans.

(o) Perform such other legal service as may be required in the administration of the Department's activities, including the defense program.

[37 FR 28463, Dec. 27, 1972, as amended at 38 FR 10795, May 2, 1973; 40 FR 33024, Aug. 6, 1975; 41 FR 27827, July 7, 1976]

§ 2.32 [Reserved]

§ 2.33 Delegations of authority to the Inspector General.

The following delegations of authority are made by the Secretary of Agriculture to the Inspector General:

(a) Advise the Secretary and General officers in the planning, development, and execution of Department policies and programs.

(b) Provide for physical protection of the Secretary.

(c) Promulgate departmental policies, standards, techniques, and procedures, and represent the Department in maintaining the security of physical facilities, self-protection, and warden systems.

(d) In addition to the above delegations of authority, the Inspector General, under the general supervision of the Secretary, has specific duties, responsibilities, and authorities pursuant to the Inspector General Act of 1978, Pub. L. 95-452, 5 U.S.C. app., including:

(1) Conduct and supervise audits and investigations relating to programs and operations of the Department.

(2) Provide leadership, coordination and policy recommendations to promote economy, efficiency and effectiveness and to prevent and detect fraud and abuse in the administration of the Department's programs and operations.

(3) Keep the Secretary and the Congress fully and currently informed about problems and deficiencies and the necessity for and progress of corrective actions in the administration of the Department's programs and operations.

(4) Make such investigations and reports relating to the administration of programs and operations of the Department as are in the judgment of the Inspector General, necessary or desirable.

(5) Review existing and proposed legislation and regulations and make recommendations to the Secretary and the Congress on the impact such laws or regulations will have on the economy and efficiency of program administration or in the prevention and detection of fraud and abuse in the pro-

grams and operations of the Department.

(6) Have access to all records, reports, audits, reviews, documents, papers, recommendations or other material available to the Department which relate to programs and operations for which the Inspector General has responsibility.

(7) Report expeditiously to the Attorney General any matter where there are reasonable grounds to believe there has been a violation of Federal criminal law.

(8) Issue subpenas to other than Federal agencies for the production of information, documents, reports, answers, records, accounts, papers and other data and documentary evidence necessary in the performance of functions assigned by the Act.

(9) Receive and investigate complaints or information from any Department employees concerning possible violations of law, rules or regulations, or mismanagement, gross waste of funds, abuse of authority, or substantial and specific dangers to the public health and safety.

(10) Select, appoint, and employ necessary officers and employees in the Office of Inspector General in accordance with laws and regulations governing the civil service, including an Assistant Inspector General for Auditing and an Assistant Inspector General for Investigations.

(11) Obtain services as authorized by Section 3109 of Title 5, United States Code.

(12) Enter into contracts and other arrangements for audits, studies, analyses and other services with public agencies and private persons and make such payments as may be necessary to carry out the provisions of the Act to the extent and in such amounts as may be provided in an appropriation act.

(5 U.S.C. 301; Reorganization Plan No. 2 of 1953; Pub. L. 95-452, 92 Stat. 1101, 5 U.S.C. app.)

[45 FR 31697, May 14, 1980]

§ 2.34 Reservations of authority.

The following authority is reserved to the Secretary of Agriculture:

(a) Approving the implementation in OIG of administrative policies or procedures that contravene standard USDA administrative policies as promulgated by the Assistant Secretary for Administration.

(5 U.S.C. 301; Reorganization Plan No. 2 of 1953; Pub. L. 95-452, 92 Stat. 1101, 5 U.S.C. app.)

[45 FR 31698, May 14, 1980]

§ 2.35 Delegations of authority to the Judicial Officer.

The following delegations of authority are made by the Secretary of Agriculture to the Judicial Officer:

(a) Pursuant to the provisions of the Act of April 4, 1940 (7 U.S.C. 450c-450g), and Reorganization Plan No. 2 of 1953 (5 U.S.C. 1976 ed., Appendix, p. 764), the Judicial Officer is hereby authorized to act as final deciding officer in adjudication proceedings subject to 5 U.S.C. 556 and 557; in other adjudication proceedings which are or may be made subject to the "Rules of Practice Governing Formal Adjudicatory Proceedings Instituted by the Secretary Under Various Statutes" set forth in 7 CFR Part 1, Subpart H; in adjudication proceedings under the "Rules of Practice Governing Cease and Desist Proceedings Under Section 2 of the Capper-Volstead Act" set forth in 7 CFR Part 1, Subpart I; in rate proceedings under the Packers and Stockyards Act; and in reparation proceedings under statutes administered by the Department. As used herein the term "Judicial Officer" shall mean any person or persons so designated by the Secretary of Agriculture. The provisions of this delegation shall not be construed to limit the authority of the Judicial Officer to perform any functions, in addition to those defined in the said Act of April 4, 1940, which from time to time may be assigned by the Secretary to him.

[45 FR 62784, Sept. 22, 1980]

§ 2.37 [Reserved]

§ 2.39 Delegations of authority to the Director of Science and Education.

The following delegations of authority are made by the Secretary of Agriculture to the Director, Science and Education.

APPENDIX 6

Congressional Research Service
The Library of Congress

Washington, D.C. 20540

July 22, 1982

TO : Honorable George E. Brown, Chairman
Subcommittee on Department Operations, Research, and
Foreign Agriculture

FROM : American Law Division

SUBJECT: Department of Agriculture Inspector General

This responds to your July 19, 1982, request for information regarding the Department of Agriculture's implementation of the Inspector General Act of 1978, Pub. L. 95-452, 5 U.S.C. App. You asked four questions, which we will attempt to answer in the following order: (1), (3) and (4) (together), and finally (2). We must, however, advise you that we are untrained in auditing techniques and precluded from making on-site reviews. We have, thus, limited our assessment to an inquiry into whether the Inspector General's reports make sense to a general reader and whether they include the elements required by the law.

We have noticed that the reports consistently reflect adherence to the policies and priorities set by the agency's top management. That may well be a reflection of the basically anomalous position of the Inspector Generals: supposedly independent, and yet administratively responsible to the head of the agency whose faults they are to reveal to the agency head and to Congress.

We note that the May 18, 1982, memorandum to Chairman Dingell from William D. Campbell, Acting Director of the General Accounting

Office questions the validity of a comparability report table of the President's Council on Integrity and Efficiency and notes that the Council has altered definitions. Since the agencies have been setting their own reporting criteria, consistency would not be expected. Since Congress has not set any definitional criteria for any agency, there is no requirement in the law that each agency adhere to a formula used in previous reports. There is, thus, no objective standard for us to use in our review.

1. Appraise Department of Agriculture Regulations Implementing the Act.

The organization, functions, and delegations of authority of the Department of Agriculture Inspector General are found at 7 C.F.R. §§2610.1-2610.6. These seem to comport with the intention of the act: they establish the office of Inspector General as an independent unit under the general supervision of the Secretary of Agriculture; define the mission in terms of conducting audits and investigations of the agency programs and operations to determine efficiency and effectiveness and to detect fraud and abuse in the administration of its programs and operations; and they delegate to the Inspector General the functions enumerated in the Act, 5 U.S.C. App. § 6, along with others relating to the physical protection of the Secretary and of the physical facilities, self-protection, and warden systems.

You also requested that we review the adequacy of other relevant agency regulations. With the volume of the regulations promulgated by the Department, we cannot with any certainty identify any that are directly in conflict with the intent of the Inspector General Act.

The cited regulations seem to contain the delegation of authority envisioned by the Inspector General Act. It is possible, however, that the status of the Inspector General as a departmental staff (rather than line management) officer might lead to situations where instructions on programs would be handed down through a line organization within the agency without consultation with the Inspector General, thus making his job more difficult. A reports control program, for instance, could eliminate a form vital to the Inspector General's audit without his becoming aware of it until time for a recurring audit. Examination of regulations for possible problems of this kind would be outside our capabilities but could be brought to attention of the Secretary of Agriculture by the Inspector General under the authority delegated by regulations or to the Congress under the reporting requirements of the Act.

3 and 4. Identify Changes in the Semiannual Reports Issued to Date, Evaluate Explanations of Changes

With the caveat that this type of analysis is generally not in the nature of legal analysis, we will attempt to characterize each of the reports issued by the Department of Agriculture Inspector General since May 1979.

(a) Report dated May 30, 1979.

This report is 34 pages in length, divided into two parts: significant problems and recommendations and summaries of audits. Among the recommendations are legislative proposals regarding the Food Stamp Program, recommendations for stronger action by the states to deter fraud, to detect fraud in the Food Stamp Program and

by the schools in the School Lunch Program. The report notes that some of the program agencies had begun to develop regulatory changes and proposals to correct the discovered inadequacies. There was also mention of inadequate staff in the program agencies to take action on the recommendations, which in consequence, have been repeated periodically, throughout future reports. The section on audits provides a representative selection of audits; the section on investigations, a table showing 193 indictments, 152 convictions, 241 cases referred. No elaboration was provided with respect to these tabular figures.

(b) Report Dated November 30, 1979.

This report is 94 pages in length, contains the same subdivisions as the earlier report, and adds another section: employee complaints.

The narrative portion is devoted to problems and recommendations and is general in nature, but it does show instances of Secretarial initiated contact with the Inspector General for recommendations, followed by the Inspector General's prediction that implementation of the recommendations should lead to tightening of management controls in programs (Farmers Home Administration). The section on the Food Stamp Program indicates continuing efforts to solve problems of a wide scale nature and does appear to follow from the earlier report. It mentioned a review of the Special Supplemental Food Program for Women started in California and projected for twelve states, noting that the Inspector General had informed the program agency of the problems and had been apprised that corrective action had begun. There is also mention of increased time spent in audits of the meat industry, prompted by public concern, a 1978 General Accounting Office report, and the appointment of officials within the program agency

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known to be receptive to the Inspector General's recommendations. The report states that there were 1,162 investigations, including 935 involving possible criminal violations, of which 348 were referred to the Department of Justice and 74 to state authorities, and that the period witnessed 374 indictments, 200 convictions, and recovery of 6.2 million dollars and claims established for 15.9 million dollars. There is also a representative sampling of audits. The report notes that 240 complaints were received on hotline and acknowledges that it is too early to assess or categorize them.

c. Report dated May 30, 1980.

This report is 54 pages in length and contains the same subdivisions as its immediate predecessor. In the problems and recommendations section, there seems to be an effort to correlate the new material with the recommendations of the earlier reports. For example, the report notes that new audits gave attention to a problem with replacement food stamp documentation that had been uncovered in an earlier report. The narrative portion again highlights major efforts at detection of abuse in the programs and contains endorsement of agency legislative proposals that the Inspector General thought would assist in combatting such abuse. It does not seem to have a separate section, as was found in the first report, as to recommendations that the Inspector General had on legislation. It does, however, raise questions on a matter imposed upon the agency by a higher authority: OMB Circular A-102, issued in October 1979, requiring a uniform single audit approach to grants-in-aid to State and local governments. Again the report lists

numbers related to investigations, referrals, indictments, and convictions, but does not provide any explanations: 976 investigations, 724 involving possible criminal violations, 282 referrals to the Department of Justice, 82 referrals to state authorities, 307 indictments, 208 convictions (not necessarily related to the 307 indictments), with 2.8 million dollars recovered, and 1.1 million dollars in claims established. Again there is a selection of representative audits and a very general summary of complaints received on the hotline and their disposition, without any definitional explanations. There is also a section summarizing the statistics relative to the audits which contains the following explanation of the figures. (That explanation should assist the Committee in recognizing the difficulties incumbent upon any administration in establishing government wide criteria for reporting on the results of audits):

> Between October 1, 1979 and March 31, 1980, the Office of the Inspector General issued 447 audit reports. During that same period, resolved audit findings carried the following monetary values:
>
> | | |
> |---|---|
> | Recoveries | $ 3,142,995 |
> | Penalties, Fines, and Judgments | $ 483,333 |
> | Erroneous Payments | $ 38,345,874 |
> | Savings | $ 3,500,000 |
> | Incorrect Loan Disbursements | $ 4,844,181 |
> | Management Improvement Practices | $ 19,000,000 |
>
> Establishing dollar figures for audit findings is often complex. Certain categories of dollar findings such as "penalties," "fines" and "judgments" represent quite firm dollar figures as do those dollar results listed as "recoveries" which consist of both actual collections and actual claims established by the program agencies of the Department. Other categories, particularly the categories of "savings" and "management improvement practices" represent the best available estimates of the dollar impact of the

> audit findings and may be either one time, annualized, or computed for the known duration of the audit condition disclosed. Also, it is frequently the case that agencies will extend corrective actions beyond the instances cited in a particular audit resulting in a substantially greater dollar impact than that shown in the audit report.
>
> It is most important to observe that monetary findings represent only a part of the actual value of our work. Of far greater importance is the preventive and deterrent impact of our audit and investigative work.
>
> U.S. Department of Agriculture, Semiannual Report, Office of Inspector General, October 1, 1979--March 31, 1980, at 42 (May 30, 1980)

(d) Report dated December 1, 1980.

This report is 98 pages in length and follows the general pattern established in the earlier reports, adding one section: Money Owed to the Department of Agriculture. In the section devoted to problems and recommendations, two further categories, departmental administration and international commodity operations, are added. The subsection on rural development programs of the Farmers Home Administration uses a narrative format that contains a general section, detailing the basic problems uncovered by the Inspector General: increasing programs with inability to hire more staff and misplaced priorities of management. It reports progress in the latter area, the only one at the discretion of the agency or program managers. For the first time, the semiannual report actually lists recommendations made to the Secretary and indicates the disposition thereof; it also lists recommendations made to the program managers and evaluates action made thereon (indicating that some progress was being made). In the Food Stamp Program, there is some development of problems encountered with state enforcement activities, and Inspector General recommendations to the states for correction of

the perceived difficulties, especially in the fraud area. As in previous reports, there is an attempt to relate the current report to problems highlighted in previous reports, e.g., the problem of Food Stamp replacements is discussed in terms of an audit of the system in New York City. There is also mention of counterfeiting of Food Stamps in the context of an illegal scheme uncovered by the United States Secret Service. The section on departmental administration revealed the findings of several audits of such things as contracting and ADP systems, with a general assessment of the cause of the problems and of recommendations made for its correction. The section on meat grading also attempts to take as its point of departure the previous year's semi-annual report. Investigations are again summarized in categories: 949 total, including 712 involving criminal violations, 324 of which were referred to Department of Justice (no mention of referrals to state authorities as in past reports), 345 indictments, 292 convictions, collections of two million dollars, claims of one million dollars. There are again examples of investigations, with no effort to indicate their significance. There is a brief analysis of the 425 complaints and a breakdown as to their categorization: noncriminal mismanagement (22 percent); minor misconduct (9 percent); personal irregularities (24 percent), and program abuse (19 percent); with 22 percent requiring preliminary investigation and 25 individual complaints scheduled for field investigation. No elaboration is given for these categories.

(d) This report is 119 pages in length; it follows the form established in its predecessors. It is prefaced by a summary of the main thrust of the report: personnel shortages and travel ceilings hampered the operations of the office; the priorities remained the same with the change in administration; and the acting Inspector General was optimistic that the problems cataloged in earlier reports would receive serious attention by the new officials. In speaking of the Food Stamp Program, the report seems to echo themes from earlier years: certification errors are costing millions annually, but a quality control program is being implemented and tested to remedy this; recipient fraud is being checked by various pilot projects, including implementation of a 1980 amendment to the Food Stamp Act allowing the Secretary, in consultation with the Inspector General, to require photo identification of recipients (a legislative recommendation of the Inspector General). The Inspector General endorses the administration food stamp bill in the report and offers reasons for doing so, all of which seem to be related to increasing efficiency in detecing and thereby preventing fraud. There are many recommendations, most of which emanated from audit or investigation findings, related to the various food and nutritional services, and the business and industrial loan programs, including recommendations for legislative proposals and for reform in administrative procedures. (All of these seem to have been directly related to audits; there is, however, no indication of whether the program agencies implemented any of them or challenged their validity. Some of the recommendations are based upon statistical samplings, some of which may have been challenged as inadequate, e.g., 100 of the

174,641 persons granted loans in the farm operating category, was the sample upon which the Inspector General relied for concluding that borrowers had disposed of loan security without the program agency's knowledge and borrowers did not have long-term debt repayment plans or adequate repayment ability.) The same format and lack of elaboration or explanation was used in the summary of investigation activities: 874 investigations, including 748 involving possible criminal violations, 310 referrals to Department of Justice, 381 indictments, 235 convictions, collections of 3.7 million dollars, and claims established for 2.3 million dollars. There is also a section devoted to money owed to the Department of Agriculture, inserted at the request of a report of the Senate Committee on Appropriations on the Supplemental Appropriation and Rescission Bill of 1980, showing a total of $86,101,521.00 owed, $2,080,685 overdue, and $3,877 written off during the reporting period. There seems to be no explanation of what is included in these categories. The section of the report devoted to hotline complaints includes a breakdown of the agencies to which the complaints were based along with a general breakdown of their type and the action taken on them, and a statement of a management innovation to reduce the time in processing complaints. There is no indication of whether the 104 items classified as complaints were actually the only calls received or whether there was an initial weeding process to establish these as legitimate complaints rather than crank calls.

(e) Report dated November 30, 1981.

This report consists of 118 pages and seems to reflect a total reorganization in format. A statistical summary contains more

statistical data and in more detail than in any previous report; no elaboration is provided for the categories used, which is not a departure from previous practices. Many of the categories added would appear to be helpful to someone attempting to assess the work of the Inspector General from the report: all audits are summarized and reduced to statistical terms, questioned costs and questioned loans, each of which is broken down in detail. A new figure is given in the summary of investigations: completed investigations (1,010, of which 785 involved possible criminal violations). There is also a breakdown of indictments and convictions by agency and a figure given for the number of Inspector General subpoenas issued. There is a section reviewing legislation and regulations, endorsing for the most part legislation initiated by the agency or administration, and indicating implementing regulations for previous legislation or for Inspector General recommendations. There is a status report on pending audits and some attempt to detail the problem causing the delay in the audit. (No such section seems to have been offered in previous reports, which seemed to be narrative in nature and did not seem to reveal definitely whether there were any difficulties in any ongoing audits but rather to concentrate on the important or significant audits.) Some of the sections in this report seem to reflect a reallocation of resources or a sense of new priorities: trafficking in food stamps seems to have captured the attention of the enforcement staff; previous reports did not mention such efforts, but rather concentrated on auditing techniques to tighten

up controls against certification frauds or replacement scams. The report continues in the vein of previous reports in that it has apprised the state officials of problems and seems to register inability to proceed further (perhaps indicating that some changes are needed in the legislation). An example of this is a mention that New York City had not implemented Food Stamp Program regulations relating to collecting claims against recipients who were not entitled to the benefits, had been so notified, but had responded that implementation awaited the press of more urgent business.

The section on the school food programs includes: (1) a statement of a problem, (2) a previous recommendation to correct it (a standard state or nationwide reduced-price meal application form), (3) implementing legislation that was secured, (4) follow-up action by the program agency, and (5) the Inspector General's disagreement with one aspect of that follow-up (a two-year study) on the grounds that it was neither necessary or cost beneficial. (A difference of opinion such as this between a program agency and an Inspector General seems to be the type of difference that would be subject to be resolved by the Secretary under his authority to administer the programs of the agency, but within the authority of the Inspector General to make a recommendation upon.) The section on Commodity Credit Corporation activities and farm programs carries references that correlate it to previous years reports, with a summary of conclusions concerning the audit connected to the suspension of grain sales to the Union of Soviet Socialist Republics, listing a savings of 10.5 million dollars which could have been increased by 5 million dollars had the Commodity Credit Corporation followed one of its recommendations (no reason is given for the agency's

refusing to follow such recommendation). One general change in the format with this report is the functional approach now used: analysis of auditing and investigative programs relating to each agency are treated together; selected cases (audits and criminal prosecutions) are scattered throughout the report to illustrate what the Inspector General has been achieving. The hotline complaint section has been relabeled, "whistleblower complaints." It clarifies the basis upon which a complaint is entered into the reported statistics: complaints resolved by telephone are not included nor are requests for information or clarification of specific programs. Total complaints (187) are also subject to more detailed breakdown and, thus, the report provides anyone reading it with a greater knowledge of what actually is involved in the whistleblower program, including the specific kinds of actions taken in response to complaints.

(f) Report dated May 4, 1982.

This report contains 57 pages and a revised format: six main sections (statistics, high priority activities, audit and investigation signficant operations, legislative initiatives, security, vulnerability studies, and a table showing the debts owed to the Department). The report contains a summary that is more comprehensive and detailed than previous summaries or prefaces. It readily identifies priorities and ties them into administration directives: debt management audits were increased after the Office of Management and Budget created the Financial Priorities Program in 1979; monitoring of the Food and Nutrition Service includes assessing implementation of key provisions of the 1981 Omnibus Reconciliation Act. It also describes projects begun under the direction of the President's Council on Integrity

and Efficiency: e.g., a study on streamlining procedures for federal employee payrolls. There is a comprehensive statistical table; again, minimal explanations are given for the terms used. There is a division between the amounts cited in the audits and the amounts agreed upon after the audits have been resolved. The term, "resolved," is not defined, but it seems to imply that the audited agency has had time to respond to the audit and the auditors have acted upon the response, adjusting their figures where warranted. In the discussion of debt management, the report alludes to a "Department study team" that seems to have operated independently of the Inspector General investigating the debt management practices of the Department of Agriculture. It ties the findings of the study team with previous findings of Inspector General auditors and recommendations of the earlier report, indicating that the Department's leadership has addressed the problem: concentration on making loans while letting the servicing operations suffer (Farmers Home Administration). The style employed in this report differs from earlier reports: there is an attempt at displaying a complete picture of the financial situation of the program agency being discussed, including in some cases a reiteration of department and administration policy. There is also a summary of the results of ongoing audits and some effort to speculate as to the nationwide implication of what has been found to date. There is also a smattering of examples of egregious violations, often chosen more for their vivid imagery--than for their revelation of defects--defaulting the farm limited resource loan used to transport Belgian horses from Europe at a cost of over $20,000 in airfare, about which there seems to be some genuine grounds for difference as to whether the loan eligibility criteria had been met. This report, like its

predecessors, attempts to correlate items with previous reports, noting progress and follow-ups and, continued intractability. The report contains a section on legislative initiatives, outlining the Inspector General's major recommendations and showing implementation of newly enacted legislation. The section on whistleblower cases contains a table that seems inconsistent with previous reports; it indicates that in fiscal years 1979, 1980, 1981, and 1982 there were 3, 3, 96, and 77 cases closed, respectively. The earlier reports indicated higher numbers of complaints received than would comport with the small number of cases closed; what was earlier classified as complaints referred to investigation may be the figure from which the new category, "cases closed," has been drawn, but there is no definition given. There is also a final table of debts owed, overdue, and written off during the reporting period. Again, no definitions are given.

2. Appraise the Degree of Compliance with Section 5(a) of the Inspector General Act of 1978

Section 5(a) of the Inspector General Act of 1978 provides general guidelines for the semiannual reports it requires of each statutory Inspector General. Such reports are to summarize the activities of the office during the immediate preceding six month period. Each of these reports includes an attempt to summarize the activities of the office as required.

The reports are to include:

(1) a description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of such establishment disclosed by such activities during the reporting period;
(2) a description of the recommendations for corrective action made by the Office during the reporting period with respect to significant problems, abuses, or deficiencies identified pursuant to paragraph (1);
(3) an identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed;
(4) a summary of matters referred to prosecutive authorities and the prosecutions and convictions which have resulted;
(5) a summary of each report made to the head of the establishment under section 6(b)(2) during the reporting period; and
(6) a listing of each audit report completed by the Office during the reporting period.

5 U.S.C. app § 5(a).

These requirements are very general in nature and provide a breadth of discretion to the Inspector General as to the selecting of "significant problems, abuses, and deficiences." Each report seems to offer such descriptions; the later reports seem to make a greater effort than the earlier ones to correlate the recommendations with the abuses identified and with previous reports. The reports also repeat deficiencies that have not been corrected and provide explanations that indicate that inadequate resources or more time is needed to correct the abuses; some problems are of a continuing type, e.g., food stamp abuses. In terms of more specific or limited problems uncovered, the reports seem very clear in providing information on the follow-up. The required summaries of audits and prosecutive activities are also included.

You have raised questions about changes in definitions that we have attempted to respond to by indicating that much of the categorization used in all of the reports has been undefined. This may well be in keeping with the reporting requirements imposed upon the Inspector Generals; the reports are to be descriptive; they are to summarize problems and recommendations; no set format has been dictated. It is noted that in several places throughout the reports, allusion is made to questions raised by Congressional committees, and material is supplied responding to those questions. One way the reports can be made more meaningful to the Congress would be for closer review by the oversight committees.

We hope this information is helpful to you.

M. Maureen Murphy
Legislative Attorney

GAO COMMENTS, JULY 27, 1982

USDA/OIG Compliance with Section 5
of the IG Act of 1978

I. Changes in OIG operation which the IG Act has prompted

A. Basically, the USDA/OIG believes that they were the model for the IG Act and consequently they have had to change their operations only minimally since 1978.

B. The main organizational change which has resulted from the IG Act is that tne Office of Investigation and the Office of Audit were brought together under the Office of Inspector General.

II. Semi-annual reports' compliance with section 5

A. Each report issued since the 1978 act contains a description of significant problems, abuses, and deficiencies relating to program administration.

B. Each report contains a description of the recommendations for corrective action made with respect to the significant problems identified.

C. As for the requirement that each semi-annual report contain "an identification of each significant recomendation described in previous semi-annual reports on which corrective action has not been completed", the following information is pertinent.

1. The OIG reports focus on "audit resolution," more than whether corrective action has been completed.

a. According to the Deputy IG, "audit resolution" means only that "corrective action has been agreed upon".

b. The act's requirement that the semi-annual reports include an identification of "recommendations...on which corrective action has not been completed" calls for the IG to report on those significant recommendations appearing in previous semi-annual reports for which corrective action has not been fully implemented.

2. The number of unresolved audits has declined in recent years.

a. In October 1980, 448 audits had been open 6 months or more.

b. In April 1981, there were 407 unresolved audits.

c. In October 1981, the number of unresolved audits dropped to 18. This reduction reflects the July 1980 Supplemental Appropriations and Recission Act which required that "all unresolved audits currently pend currently pending shall be resolved no later than September 30, 1981." The act also required that "any new audits involving questioned costs shall be resolved within six months."

d. In April 1982, the number of unresolved audits was down to 6.

e. The OIG staff stated that the reason the unresolved audit balance stays so low is because the Department's highest officials support audit resolution.

3. The Deputy IG and the head of Audit agreed that the reports focus on audit resolution rather than recommendations that have not been fully implemented. The head of Audit stated that the staff believed they were fulfilling the act's follow-up requirement by providing audit resolution statistics.

D. The reports do contain a summary of matters referred to prosecutive authorities and the prosecutions and convictions which have resulted, as required by Section 5(a)(4).

E. The reports do not contain "a summary of each report made to the head of the establishment under section 6(b)(2) during the reporting period."

1. Section 6(b)(2) provides that if the IG encounters access to records problems he is to report the situation to the Secretary.

2. OIG staff stated that they have mentioned nothing about access to records problems because such problems have never arisen.

F. Each report does contain a listing of audit reports completed by the Office during the reporting period.

G. Section 5(d) requires the Inspector General to report immediately to the Secretary whenever the IG becomes aware of particularly serious or flagrant problems. The OIG staff stated that this is done in an informal way if any serious deficiencies arise. They have never submitted any special reports to the Congress about such situations.

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